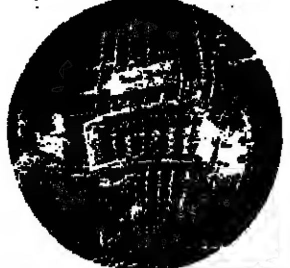
FINANCIAL TIMES

Start the week with...



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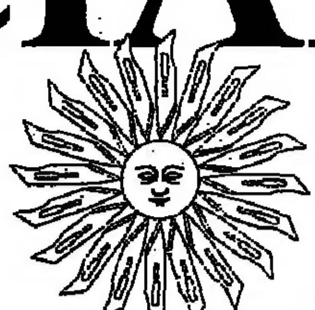

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World Business Newspaper — MONDAY JUNE 3 1996

Czech reforms hit by poll setback for Klaus coalition

The Czech Republic's rapid economic reforms were *suspended indefinitely* after voters refused to give the outgoing coalition of prime minister Václav Klaus a fresh mandate in parliamentary elections at the weekend. Preliminary official results showed the three-party centre-right government two seats short of an overall majority in the 200-member parliament after a good showing by the main opposition Social Democrats. *Page 18*

IRA offered arms concession: The British and Irish governments are understood to be considering a fresh concession to Sinn Féin, the IRA's political wing, by agreeing to postpone discussion of arms decommissioning until *September. Page 8*

KHD rescue depends on Saudi goodwill: A rescue package for German engineering group Klöckner-Humboldt-Deutz, which faces bankruptcy after uncovering hidden losses of DM650m ($422m), is believed to depend largely on the goodwill of Saudi Arabian businesses. Page 19

Istanbul hosts Habitat conference: Istanbul, *host to the* United Nations' *second Habitat conference* on urban development which starts today, is afflicted by many of the problems confronting the developing world's "megacities". Page 18; Key to tackling urbanisation problems, Page 4

Bosnian poll to go ahead: US secretary of state Warren Christopher said elections in Bosnia *would be held as planned*, despite the failure of efforts to oust Bosnian Serb leader Radovan Karadzic, who is wanted on war crimes charges. Page 2

Kazakhstan sells industry to west: Western companies won control of some of Kazakhstan's biggest industrial companies, collectively valued at more than $1bn, after sales designed to show government commitment to "open and transparent public tenders". Page 5

European ports face disruption: Northern Europe's main ports – including Hamburg, Bremen, Amsterdam, Rotterdam and Antwerp – face a week of disruption from today in a trade union campaign of protest against both flags of convenience ships and the threat of deregulation to dockland. Page 2

Avis Europe may return to London market: Avis Europe, continental Europe's largest car hire company, is considering a return to the London stock market seven years after it was taken over by a consortium *of investors*, including General Motors, for nearly £900m ($1.39bn). Page 21

Parc Asterix plans listing: Parc Asterix, France's answer to the EuroDisneyland theme park, is to seek a stock market listing. Page 21

Anglo American to stay diverse: Anglo *American Corporation rejected speculation* that it will unbundle its non-core interests to focus on its natural resources business when exchange controls are abolished in South Africa. Page 19

Whirlpool in Japanese marketing deal: Whirlpool, the US white goods manufacturer, strengthened its push in the Asia-Pacific region with a deal for its refrigerators to be sold through Japanese electrical goods retailer Daiichi. Page 22

New Zealand 'the least corrupt country': New Zealand is the world's least corrupt country, in the opinion of international business people, while Nigeria appears to be the most corrupt, an influen*tial pressure group reported. Page 5*

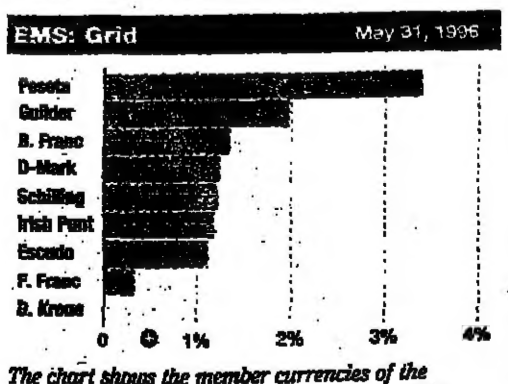
Schumacher wins at Barcelona

World motor racing champion Michael Schumacher (left) of Germany won the Spanish Grand Prix in Barcelona. It was his first win for Ferrari. Challenger Damon Hill of Britain retired after spinning his Williams-Renault. Schumacher lies 17 points behind Hill in this year's world championship.

French Derby winner: Ragmar, a 9-1 chance ridden by Gerald Mosse and trained by Pascal Bary, won the Prix du Jockey Club (French Derby) at Chantilly. In a very tight finish, the colt beat English-trained Polaris Flight by a short head, with French-trained Le Destin another short head away in third place.

European Monetary System: In a week characterised by a sharp rally in sterling and a slight correction to the dollar, there was no change to the order of currencies in the EMS grid. The spread between strongest and weakest was also almost unaltered. *Currencies, Page 29*

EMS: Grid May 31, 1996



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

Albania	LEK 220	Germany	DM4.00	Lithuania	Lts 15.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR12
Bahrain	Din1.250	Hong Kong	HK$20	Malta	Lm0.85	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft230	Morocco	MDh16	Slovak Rp	Sk65
Cyprus	C£1.20	Iceland	IKr230	Neth	Fl 4.75	S. Africa	R12.00
Czech Rp	Kc60	India	Rs75	Nigeria	Naira90	Spain	Pta250
Denmark	DKr18	Israel	Shk7.90	Norway	NKr20.00	Sweden	SKr20
Egypt	E£5.00	Italy	L3200	Oman	OR1.50	Switz	SFr3.70
Estonia	EKr22	Japan	Y500	Pakistan	Rs40	Syria	S£65.00
Finland	FM18.00	Jordan	JD1.50	Poland	Zl 5.50	Tunisia	Din1.750
France	FFr11.50	Kuwait	Fils650	Portugal (m'land)	Es240	Turkey	L80,000
		Lebanon	LL3,000			UAE	Dh12.00

Calls for moderation as Britain seeks end to ban on beef by-products

UK urged to ease EU veto policy

By David Wighton in London and Caroline Southey in Brussels

The UK government came under pressure yesterday to soften its non-co-operation policy with the *European Union if the ban on* beef by-products is lifted as senior Conservatives and diplomats warned of the dangers of an "anti-European" campaign.

Sir Leon Brittan, the UK's senior EU commissioner, suggested the government could allow through proposals which were "of particular interest to Britain" and said such a move would "help Britain's friends to help Britain".

The UK government is hoping that the ban on tallow, gelatine and semen will be *lifted* at a meeting of EU agriculture ministers which starts in Luxembourg today. But Mr Roger Freeman, the minister co-ordinating the policy of non-co-operation, has made clear that the campaign would not be scaled down until a "framework" had been agreed for *the lifting of the main ban on* beef exports.

Mr Douglas Hurd, Britain's former foreign secretary, cautioned the government that while non-co-operation was reasonable as a short-term tactic, "to settle down to some form of trench warfare, particularly against things we are in favour of, would of course be counter-productive".

Labour also urged the government to use the veto more selectively. In the first qualification of the opposition's support for the policy, Mr Robin Cook, shadow foreign secretary, said it would not back the blocking of EU proposals to combat fraud and to make 1997 a year against racism.

Other voices urging caution included three former UK European Commissioners – Lord Jenkins, Lord Thomson of Monifieth *and Mr Bruce Millan – and three* former senior British diplomats – Sir Michael Butler, Sir Donald Maitland and Sir Nicholas Henderson. In a joint statement, they said the UK risked being "relegated to a second-class status within Europe" and warned that the current anti-European policy could be "disastrous".

Mr John Major, UK prime minister, called all cabinet members involved in the campaign to Downing Street last night, ahead of this week's key meetings in Europe.

At the start of the two-day Luxembourg meeting today, Mr Douglas Hogg, the UK's representative, will present his counterparts with a 200-page plan to combat mad cow disease, including a selective cull and a new register to track animals.

Sir Leon said it was "very difficult to say" whether the meeting would decide to lift the by-products ban. However, even if the ministers do not vote with the UK, the Commission is expected to use its powers to lift the ban. Sir Leon said that a framework for the lifting of the total ban could be produced "quite quickly".

UK and Commission officials are working on the details of a framework which Mr Malcolm Rifkind, UK foreign secretary, is due to discuss with Mr Jacques Santer, Commission president, when they meet in Brussels tomorrow. EU officials were optimistic that the terms of the framework could be agreed.

"The political will amongst the other member states to reach agreement is there," said an EU *official, adding that the British* government's decision to send senior politicians to European capitals to discuss the plan would provide a significant boost to striking a deal.

However, member states remain sceptical of the British government's determination to end the crisis. "If they show they can meet their end of the bargain, the problem can be solved quickly," said an EU diplomat. "But this is not a working assumption in the rest of the EU."

EU votes to be blocked, Page 8

S Korean securities regulator accused of corruption

By John Burton in Seoul

The chairman of South Korea's Securities Supervisory Board (SSB) was arrested yesterday on corruption charges, and prosecutors said they would investigate other government officials overseeing the stock market.

Mr Paik Won-ku was accused of accepting Won10m ($12,800) for granting Yukyong Information Telecom a listing on the Seoul stock market and receiving Won110m in 10 other unspecified cases.

The supervisory board is the government agency that regulates the stock market, including approving share listings, investigating insider trading and supervising mergers and acquisitions.

Prosecutors said they would expand their probe to include other officials at the board and the finance ministry who deal with securities regulation.

There are concerns among investors that the corruption scandal, the latest in a series that has shaken Korea since last autumn, could affect share prices in an already fragile market.

The involvement of Mr Paik shocked the financial industry as he was regarded as a high-flyer. A former customs administrator and vice-finance minister, Mr Paik was assumed by many to be in line for an economic portfolio in the cabinet.

The scandal is likely to renew allegations about widespread price manipulation in the Korean stock market. It also raises questions about the government's securities policy.

Analysts suggest the state's tight supervision of the stock market has created fertile ground for official corruption. This is particularly true for the listing of shares, with more than 200 companies waiting to issue initial public offerings.

The SSB is the second government economic supervisory agency to be involved in a corruption scandal recently. Several officials from the Fair Trade Commission, which oversees activities of big industrial groups, were arrested for allegedly accepting bribes in return for approving expansion plans by businesses.

Investing in Britain 'too risky' for Belgian utility

By Simon Holberton in London

Tractebel, the multinational Belgian utility, has given up hopes of investing in the UK electricity industry, claiming that the political and regulatory risks are too high.

The Belgian company was seen as a potential bidder for Midlands Electricity, the regional electricity company which has accepted a £1.7bn ($2.5bn) offer from two US utilities.

But Mr Philippe Bodson, chief executive, told the Financial Times the UK had become too "unpredictable" for his company to consider investing.

"There are good companies in England and the market will grow, but it is difficult to develop your strategy when the environment could be affected by the decisions of one or two people," he said. "You can't be a player in [the UK] market unless you are a big player. Investing big amounts of money when you don't know what will happen is too risky for us."

Mr Bodson specifically cited the Ofgas review of Transco, British Gas's pipeline business, and the decision by the UK government to block Southern Company, a big US utility, from bidding for National Power.

"The sector cannot only be reorganised by the market; one has to recognise that there will be political involvement. It's a tricky situation," he said.

Over the past year, Tractebel has invested nearly $500m in 11 power projects internationally, including Oman, Italy, India, Thailand and Singapore.

Mr Bodson said that the company had been forced to look abroad for opportunities because its ability to grow in Belgium was constrained by regulation. Electrabel, its principal business in Belgium, was unable to earn higher than a 12.5 per cent return on assets, he said.

Mr Bodson said that although Tractebel had looked at opportunities in the Australian state of Victoria, which has privatised its electricity industry, "we were not going to do it for an 8 per cent return on our investment".

Similarly, Tractebel is keen to invest in China's electricity industry but could not justify doing so while the Chinese government wants to restrict investment returns to 12 per cent.

However, he said the company had high hopes of its participation in Sempec Utilities and Terminals, in Singapore. Tractebel manages and owns 25 per cent of the company which will operate the utility services – initially steam and electricity – for a newly created industrial park in Singapore.

Ultra-nationalist Russian presidential candidate Vladimir Zhirinovsky addresses an election rally during a campaign stop in central Siberia. Mr Zhirinovsky is running third in the contest. The first round of voting takes place on June 16. Chechnya fighting puts Yeltsin pledge at risk, Page 18 Picture: AP

Israel's new PM seeks peace with Arab neighbours

By Julian Ozanne in Jerusalem

Mr Benjamin Netanyahu, Israel's next prime minister, yesterday said he wanted to find "peace with security" with all Israel's Arab neighbours, heal divisions at home and build a free market economy.

"I said peace begins at home but it has to continue abroad," he said in his first public speech *since defeating Mr Shimon Peres* in elections for the premiership last week.

"The government we will form in a few days, with God's help, will strengthen the peaceful relations that have already been established with the Jordanian kingdom and with Egypt and will continue the negotiations with the Palestinians," he said. "We will also work to further peace deals and coexistence with other Arab states. I call on them to join the circle of peace."

Before thousands of cheering supporters at a victory rally in Jerusalem, Mr Netanyahu reached out to Jewish opponents and Israeli Arabs who voted overwhelmingly for Mr Peres. He said his first priority was to heal the divisions created in Israeli society, and treat every Israeli, Arab or Jew as full and equal citizens.

"I want to be the prime minister of everyone – Jew or non-Jew, secular or religious, those that live in development towns and those that live in cities ... peace begins at home."

He said his future government was "planning, finally, a free market economy" liberated from bureaucracy. Earlier, calm returned to Israel's financial markets after Mr Netanyahu pledged to work for economic liberalisation, lower inflation and measures to enhance the stock exchange. The benchmark Mishtanim index of the top 100 shares rose 3.85 points, or 1.91 per cent, *to close at 205.23.*

Shares fell 5 per cent last Thursday, the previous day of trading, amid fears of a negative impact on Middle East peace when it became clear Mr Netanyahu would win the election.

Traders said the positive response reflected Mr Netanyahu's commitments over the weekend to continuing the peace process and the fact that Israeli shares in New York suffered little effect from his victory.

In a statement released before the Tel Aviv Stock Exchange opened yesterday morning, Mr Shai Bezak, Mr Netanyahu's spokesman, said the new Israeli leader was committed to "an atmosphere of stability that will lead to increased local and foreign investments".

"He also views the stock market as a central instrument for growth and the raising of capital ... He intends to give preference to the privatisation of government companies."

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Russia takes step to ease rouble curbs

By Graham Bowley in London and Chrystia Freeland in Moscow

Russia, which has historically barred its citizens from taking the national currency out of the country, has taken a big step towards world markets by making the rouble fully convertible for foreign trade transactions.

The move, which could make Russia more attractive for outside investors, is part of President Boris Yeltsin's vigorous effort to persuade voters to support him, and the bold market reforms he has set into motion, in the June 16 presidential elections.

In a liberal economic programme unveiled on the campaign trail last week, Mr Yeltsin promised he would make the rouble "a real, hard currency".

The government moved in that direction on Saturday, when Moscow signed the International Monetary Fund's "Article eight" on currency convertibility, which will take effect immediately, the central bank said.

Mr Alexander Potemkin, central bank deputy chairman, said the decision would enable Russia to attract cheaper foreign loans and more investment.

Under Article eight, IMF members agree not to impose restrictions on payments and transfers for current account transactions – essentially foreign trade – and not to operate multiple exchange rate regimes.

But Russian authorities, who have stepped up measures to stem the flow of capital out of the country – estimated at $50bn since the collapse of the Soviet Union – will retain tight restrictions on the capital account.

Remaining restrictions on the convertibility of rouble balances in non-residents' current accounts and balancing accounts of non-resident banks would be lifted by July 1, a central bank spokesman said.

The decision, which signals the government's increasing confidence in its economic stabilisation programme, will mean the end of regulations requiring exporters to surrender part of their foreign exchange earnings.

The weekend measure is expected to help Russian exporters and importers, but it does not mean that the rouble will be traded freely offshore.

However, some banks in London and other centres are already gearing up their operations in anticipation that the rouble will become freely convertible on the capital account.

They believe that because of its tremendous natural resources, Russia will become a big international trader, making the rouble a heavily traded currency.

Geneva talks: Serbia's President Milosevic (left), Nato chief, General George Joulwan, and US secretary of state Warren Christopher

Bosnian poll to go ahead despite war crimes row

By Laura Silber in Geneva

Mr Warren Christopher, US secretary of state, yesterday said elections in Bosnia would be held as planned, despite the failure of international efforts to oust Mr Radovan Karadzic, the Bosnian Serb leader who is wanted on war crimes charges.

"After meeting all the parties here, elections could, and should, go on as scheduled," Mr Christopher told reporters in Geneva following a summit with the presidents of Serbia, Bosnia-Hercegovina and Croatia.

The holding of elections throughout Bosnia by September is seen as crucial for the full implementation of the Dayton peace agreement, which divided the war-torn country roughly in half between the Bosnian Serbs and the Moslem-Croat Federation. Under the agreement, indicted war criminals are banned from holding public office or standing in elections.

However, Washington is anxious for elections to be held on schedule because President Bill Clinton has pledged to pull out the 16,000 American soldiers who are part of the 60,000-strong Implementation Force in Bosnia by the end of the year.

At the start of the Geneva meeting, however, Mr Alija Izetbegovic, president of Bosnia, reiterated his demand that elections should not be held unless Mr Karadzic and his military commander, General Ratko Mladic, were extradited to the UN war crimes tribunal in The Hague.

During the all-party summit, Mr Christopher and European mediators exerted pressure on President Slobodan Milosevic of Serbia to provide "concrete proof" that Mr Karadzic was no longer in power. The Bosnian government and international mediators fear Mr Karadzic will continue to wield power behind the scenes – undermining elections and the peace accords – in spite of his earlier pledges to delegate some of his powers to his hardline deputy, Mrs Biljana Plavsic.

Mr Nicholas Burns, the State Department spokesman, said the date for Bosnia's elections would be announced on June 14 in Florence at the mid-term review conference of the year-long Dayton plan. He said it was likely to be in September.

Mr Flavio Cotti, the Swiss foreign minister and chairman of the Organisation for Security and Co-operation in Europe, which is organising the poll, said more progress needed to be made on free movement of peoples and freedom of the press.

Ports braced for union disruption

By Robert Taylor, Employment Editor

Northern Europe's main ports – including Hamburg, Bremen, Amsterdam, Rotterdam and Antwerp – face a week of disruption from today in a trade union campaign of protest against both flags of convenience ships and the threat of deregulation to dockland.

The International Transport Workers' Federation, which represents 680,000 seafarers worldwide, is organising the militant action.

It will involve boycotts, strikes and picketing, as well as the leafleting of flags of convenience vessels which have not signed collective agreements laying down minimum earnings and employment conditions.

"Our aim is not to blockade the ports," said Mr David Cockcroft, the ITF's general secretary. "This is not a frontal attack but a warning shot. We know we are taking some legal risks but we prepared to do that. We already have a hit-list of ships to target."

Inspectors employed by the ITF intend to board ships in the ports to talk to crews about their pay and conditions and inspect manning schedules and employment contracts.

Dockers, pilots, tug boat crews and other port workers may refuse to load or unload ships to try to force the companies to negotiate agreements.

The ITF wants shipping companies to either abandon using flags of convenience or accept agreements drawn up by the federation laying down minimum wages and working conditions for seafarers.

Nato endangers show of unity

By Bruce Clark, Diplomatic Correspondent

The acrid whiff of a transatlantic row will be in the air today as Nato foreign ministers gather in Berlin for a meeting that is supposed to lay the foundations for a reformed alliance in which Europe plays a greater role.

Bickering between US and European officials over the precise terms of a new security partnership has cast a shadow over a meeting previously billed as a display of transatlantic unity and resolve.

The lack of US-European concord may also damage Nato's effort to present a united front to Russia and the other former Warsaw pact members who will join the conference tomorrow.

With the Russian elections only two weeks away, Nato has tried to focus the meeting on internal alliance reforms – and as far possible, not to mention the cold war, which Moscow has vowed to restart if the 16-member bloc expands.

But would-be Nato members will be lobbying in Berlin for a promise that expansion is still on track, and Nato officials will be on the lookout for diplomatic fireworks from Mr Yevgeny Primakov, Russia's foreign minister.

Nato officials have urged Mr Primakov to keep the discussion to issues that are less contentious than enlargement – such as Russian-Nato co-operation in Bosnia and elsewhere. But Russian behaviour at previous Nato meetings has been highly unpredictable.

The US-European row looming in the background is at first sight a very academic dispute, with officials poring closely over the meaning of words and the exact formulation of military missions which may never be launched.

But behind all the semantics is a practical question: how much freedom of action will Washington give its European allies in using Nato equipment which is mainly of US origin? The search for the answer to this question has been under way since 1994 when President Bill Clinton told the leaders of Nato's other 15 member states that he accepted the need for Europe to have a defence identity of its own.

Discussion of the issue received a powerful boost six months ago when France, the strongest advocate of a common European defence, formally accepted that this could only be pursued inside Nato.

But recently, negotiations have stumbled over the issue of how much say in the conduct of European military missions would be retained by the North Atlantic Council (NAC), a panel of Nato governments of which the US is much the most powerful. All sides broadly agree that the NAC would have to give the initial green light for any military operation in which Nato assets are used – including European-only missions.

US officials would like to see the NAC continue to exercise some authority over such missions while they are under way. France, however, has led the European camp in insisting that once the green light is given, political control should pass to the 10-member Western European Union. "Political control cannot be divided," said one French official.

In English, French and many other languages, the distinction between "follow-up" and "surveillance" on one hand, and "supervision" or "control" on the other, is hard to define. But that is the distinction which the Nato ministers will have to make – or fudge – at today's meeting.

Germans face EU censure

When the European Union finance ministers meet in Luxembourg today, the German delegation will have reason to blush.

For the European Commission will recommend the ministers issue a ruling that Germany's deficit was "excessive" last year, at 3.5 per cent of gross domestic product.

The finding carries some irony, given the German insistence on the importance of implementing tight fiscal discipline ahead of European monetary union.

However, the real point of interest in the Commission's ruling lies not in its judgment today, but in future plans to make this sort of judgment a cornerstone of Emu.

Both the Commission and Europe's central bankers are considering proposals for more binding systems of surveillance to support a single currency and exchange rate mechanism.

If these proposals are agreed later this year, rulings like today's will be the subject of considerably more power and pain in the future.

The proposals the Commission is preparing essentially have two related aims.

One is a desire to prove to countries such as Germany that Emu will be underpinned by commitments to credible economic and fiscal policies from all its members.

At the same time, it also wants to reassure countries like France that countries outside Emu will not be able to engage in competitive devaluations.

The Commission is studying French proposals to deal with the latter problem by paying EU funds in national currencies rather than the Euro. However, these proposals are controversial in the Commission, with some officials believing they will be difficult to implement.

Instead, the Commission hopes to control the behaviour of countries through better systems of mutual surveillance and control.

A system of surveillance by Brussels has existed in the EU since January 1994.

The European Council already draws up broad policy recommendations and rules which countries have excessive deficits, following Commission recommendations – like that on Germany today.

The problem with this process at present is that it lacks teeth.

The Commission wants to make it more credible by demanding greater detail about economic policies member governments are following – possibly before they submit them to their national parliaments.

These economic policies would have to show how countries planned to create jobs. And member states would be required to take action if they failed to meet their targets – raising interest rates, for example, if inflation surged.

Commission officials admit they have little way of forcing this system on countries outside Emu, though they hope to give it more credibility by demanding that members which approve one another's policies also promise monetary support if needed.

However, for those countries inside Emu, it hopes to go even further. It wants to speed up the period for judging fiscal deficits to a few months. And it wants to create a fixed "menu" of sanctions for countries judged to have excessive deficits.

This system would still be softer than the stability pact proposed by Mr Theo Waigel, the German finance minister, which called for fiscal deficits to be normally around 1 per cent of GDP, and heavy, automatic fines if they rose above 3 per cent.

However, Mr Waigel's pact is regarded with considerable distaste by countries other than Germany.

The Commission hopes its more moderate system will find greater favour – not least because it draws on existing articles of the Maastricht treaty.

But not all observers remain as optimistic as the Commission. Some German officials are unconvinced by the scheme.

Meanwhile, the Organisation for Economic Co-operation and Development noted in a recent report that the Commission's current surveillance system "still had to prove that it is an effective basis for policy co-ordination".

But though hard negotiating remains to be done, the surveillance concept itself is likely to become more prominent in the coming months, particularly if France or Germany seem likely to miss the Maastricht deficit criterion.

For as officials are aware, one possible way to fudge any possibility that countries such as France might narrowly miss the Maastricht criterion would be to place more emphasis on stronger convergence commitments after 1999.

As one official in Brussels says: "It might be useful for several countries to shift the EMU debate away from entry requirements to commitments after entry. The idea of better surveillance could be one way of doing that."

Gillian Tett

States meet on budget cuts

Finance ministers from Germany's 16 states will meet this week to decide on budget savings of up to DM15bn ($9.8bn) to compensate for drastic shortfalls in tax revenues next year, writes *Wolfgang Münchau* in Frankfurt.

The proposed package of spending cuts, which will come in addition to cuts recently announced by the federal government, will be discussed at a meeting on Thursday. Both packages add up to one of the most ambitious savings programme ever attempted in Germany.

State governments agree on the need for substantial savings, although they are likely to disagree over some of the details. State budgets have already come under increasing strain because of higher welfare pay-outs and lower tax receipts because of the economic downturn.

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Paris pressure on OECD over deficit forecast

By Stephanie Flanders and Gillian Tett

The French government has tried to quash doubts that it will qualify for a single currency by asking the Organisation for Economic Co-operation and Development to produce a more upbeat projection of public borrowing.

An internal French government memo obtained by the Financial Times shows that draft versions of the OECD's forthcoming half-yearly outlook predicted that the French government budget deficit would be 4.2 per cent of GDP in 1997 – well above Maastricht criteria, which require a deficit less than 3 per cent of GDP.

In the memo, French officials argue that a figure of 3.8 per cent would be more appropriate if the OECD made some technical changes to its forecast, and took "a more optimistic view" of government spending. They further point out that the OECD's forecast would be even lower if it took account of the government's planned spending cuts.

One senior finance ministry official said: "This is purely a technical debate. It has no other significance at all." He denied that the French had been putting pressure on the OECD, and pointed out that it was customary for governments to engage in dialogue with the OECD over its forecasts in the months prior to publication.

However, Mr Richard Smedley, a US hedge fund adviser who first obtained the memo, claims it provides further evidence of the French government's determination to persuade the markets and economic forecasters to take an optimistic view of its planned spending cuts. The OECD has now reduced its forecast for the deficit slightly, although its projections will still show that both France and Germany will miss the Maastricht deficit criterion.

A few months ago the European Commission forecast that the French deficit would be about 3.6 per cent of GDP in 1997. But in projections published last month it lowered its prediction to 3 per cent after the French government asked it to take its planned spending cuts into consideration. The OECD, by contrast, has not included spending cuts in its forecasts, since it believes that cuts should only be included if there is clear evidence they will be implemented.

The memo also shows that the OECD initially forecast that the French economy would grow at 1 per cent this year and 2.4 per cent next year. This is similar to the Commission's forecasts, but below the French government's projections, which envisage growth of 1.3 per cent in 1996.

Against this background, the OECD projected a deficit of 4.7 per cent this year and 4.2 per cent next. French officials appear to have been irritated by the OECD's assumption that the government would not succeed in its aim of balancing the social security budget, which showed a deficit of FFr70bn ($13.7bn) last year.

EUROPEAN NEWS DIGEST

Albania boycott mars runoff poll

Albania's second round of voting went ahead yesterday in spite of a boycott of the election by most opposition parties and calls from the west for the election to be re-run.

Opposition parties, including the Socialist party, continued their hunger strike in protest at what they claimed were serious manipulations and violations accompanying the first round of voting on May 26.

The ruling Democratic party claims to have won a sweeping 67.8 per cent of the vote in the first round, but the Organisation of Security and Co-operation in Europe, which was monitoring the election, the European Union and the US have all criticised the fairness of the process and called for partial re-runs.

Yesterday's run-offs were held in constituencies where no candidate won a majority last week.

Albanian President Sali Berisha has insisted the elections were fair, with only slight irregularities, and alleged that the Socialists and other opposition parties withdrew because they were losing. The Socialists said they would not take up the five seats they won or enter the future parliament and would press on with their hunger strike until new elections were called. *Marianne Sullivan, Tirana*

Bankers warn Russia on policy

Russia can expect continued international support for the restructuring of its external debt only if it pursues "appropriate policies", western central bankers warned yesterday.

The warning came just weeks after Russia reached agreement with the Paris Club of creditor governments and the London Club of commercial bank lenders on restructuring of most of its external debt. But with the Russian presidential election looming, European bankers, especially in Germany, remain anxious about the fate of their loans to Russia.

The issue was raised yesterday with a panel of central bank governors by bankers attending the International Monetary Conference in Sydney. The annual conference brings together chairmen and chief executives from 102 of the world's leading international banks to discuss banking and economic issues in private meetings.

Mr Eddie George, governor of the Bank of England, said in a briefing after the closed-door conference session that the central bankers believed that in principle no country, even one so important as Russia, was "too big to fail".

Mr George said that prevention was clearly better than the resolution of a crisis, and welcomed efforts by the International Monetary Fund to improve its surveillance of member countries' economies and to enhance the availability to the Fund and to the financial markets of timely economic statistics. *George Graham, Sydney*

New chief for French television

Mr Xavier Gouyou-Beauchamps, a television executive with extensive experience in government and public broadcasting, was yesterday appointed head of French public television.

Mr Gouyou-Beauchamps, the general manager of public channel France 3 since 1994, takes over from Mr Jean-Pierre Elkabbach, who resigned on Friday after a furore over multi-million-dollar fees paid to star entertainers. Disclosures that France Television was spending FFr640m ($125m) this year on the stars caused an outcry in parliament and the media.

"I am convinced that public television plays a crucial role in our cultural identity and social cohesion," Mr Gouyou-Beauchamps, told reporters after his appointment by the broadcasting regulatory agency. France Television is financed almost equally by advertising and a share of the annual FFr700 licence fee that viewers pay. *Reuter, Paris*

Italy rules out tax amnesties

Mr Vincenzo Visco, Italy's newly appointed minister of finance, announced at the weekend that he would not resort to tax amnesties to boost revenues.

A mini-budget to put public sector finances back on track, after an overshoot of about L10,000bn ($6.41bn) in the first quarter, is a priority for the centre-left government headed by Mr Romano Prodi.

Mr Visco noted that the forthcoming measures would concentrate on cuts in expenditure, and he expects only a limited contribution from increased taxes for correcting the deficit. He has no plan to raise taxes on petrol or tobacco. The government's objective is to maintain fiscal pressure at current levels. In its annual report, the Bank of Italy recorded that fiscal pressure was 40.6 per cent last year, compared with 35.2 per cent in 1986. Mr Visco said that the finance ministry would soon release tax revenue figures for the first four months of the year. *David Lane, Rome*

Romanians vote in council polls

Former tennis star Ilie Nastase, a Bucharest mayoral candidate, leaving the polling booth yesterday

Romanians went to the polls yesterday in the first round of voting for mayors and local councils. The elections are the first nationwide poll for nearly four years and are an important test for the main political groups – several of whom have split or formed new alliances since 1992 – ahead of parliamentary and presidential elections due in the autumn.

Most attention has focused on Bucharest where Mr Ilie Nastase, the former tennis star, is running for the ruling leftwing Party of Social Democracy in a field of 47. Mr Nastase is expected to go through to a two-way run-off on June 16, against Mr Victor Ciorbea, the candidate of the centre-right Democratic Convention, Romania's main opposition group and the winner of the country's first post-communist local elections in early 1992. Candidates must receive an absolute majority with turnout of at least 50 per cent to win in the first round. Officials said that more than 40 per cent of eligible voters had cast their ballots three hours before polling ended. Full results are due on Thursday. *Virginia Marsh, Budapest*

Bucharest in Eurocopter deal

The Romanian state-owned aviation group, IAR, has signed an agreement with Eurocopter for co-production of 80 of the Franco-German venture's Ecureuil helicopters at a plant in Brasov, central Romania.

In the first phase of co-operation up to 2001, IAR – Intreprinderea Aeronautica Romana – will assemble 40 twin-engine helicopters from kits provided by Eurocopter, a joint venture between Aerospatiale and Daimler-Benz Aerospace.

The helicopters, which are used by hospitals and police and for other non-defence activities, are due to be sold on the domestic market. But the two aviation groups have also agreed to explore export opportunities. *Virginia Marsh*

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Job juggling under way for Netanyahu

Julian Ozanne assesses the chances of main candidates for the top posts in the new Israeli cabinet

As Mr Benjamin Netanyahu, Israel's next prime minister, began complex coalition negotiations yesterday his biggest headache was over which cabinet job to give to Mr Ariel Sharon, the hardline former general.

The future of the 68-year-old Mr Sharon, a rightwing political heavyweight reviled in the Arab world, is an essential, and tricky, element in constructing a new government and carefully distributing senior cabinet posts, including defence, finance, housing and education.

How Mr Netanyahu carries out his task, and his choices to staff Israel's key ministries, will be the first real indicator of the policy direction of Israel on the key issues of Middle East peace, the national economy and the religious-secular status quo.

Mr Netanyahu's job is complicated by several factors.

First: many of the future ministers, like himself, have never held cabinet office and many are first-time members of parliament. Second: he over-committed himself before the election through a series of promises which will be difficult to keep. Third: he must ensure that his few loyalists in his own Likud party receive enough portfolios to guarantee him a majority in the cabinet.

Finally: he faces a powerful religious-orthodox bloc, commanding 23 seats in the 120-member Knesset, which is planning a unified strategic assault on Mr Netanyahu for the most powerful jobs and the greatest allocation of resources.

Hopeful contenders: Ariel Sharon (left), Natan Sharansky and David Levy seek senior portfolios

Mr Netanyahu's first task is to decide how to distribute the big three posts – finance, defence and foreign affairs. Mr David Levy, 58, the foreign minister in the last Likud government of 1988-92, has been promised the deputy premiership, plus the portfolio of his choice, in exchange for withdrawing his candidacy against Mr Netanyahu and rejoining the Likud party. He is likely to ask for the foreign ministry again.

The prime minister-elect has promised the defence ministry to Mr Yitzhak Mordechai, 52, a former army general who entered politics eight months ago and came top of the list in Likud's party primaries. However, senior generals, including Gen Amnon Shahak, chief of staff, let it be known yesterday that they would resign if Mr Mordechai became defence minister.

Even so, Mr Sharon could become finance minister. He withdrew his candidacy for the premiership and was crucial in brokering an electoral pact with other rightwing parties to form a united front behind Mr Netanyahu in the general election. He came second in Likud's primaries and secured ultra-orthodox Jews' backing for Mr Netanyahu.

But a Treasury run by Mr Sharon would be problematic. He is on the extreme right of the party and is the champion of the country's need to keep hold of Arab lands and build a Greater Israel by massive new investment in Jewish settlements in the West Bank. Such a policy would not only threaten the Middle East peace process but would also kill urgent efforts to cut the budget so as to reduce inflation.

The ex-general has also never fully recovered from his role as defence minister during Israel's disastrous invasion of Lebanon in 1982. He was forced to resign in humiliation after an Israeli inquiry found him indirectly responsible for the slaughter of hundreds of Palestinian refugees, including women and children, by Christian militiamen at Beirut camps surrounded by Israeli soldiers.

Although some businessmen remember favourably Mr Sharon's stint as trade and industry minister in the 1980s, many doubt his ability to calm the fears of foreign investors and keep the economic aspects of the peace process on track.

If Mr Netanyahu were to decide to place at the finance ministry a more moderate Likud figure, such as Mr Dan Meridor, the favourite candidate of the business community, that would mean some other post for Mr Sharon.

One alternative would be to send him to the housing and construction ministry. There, however, his drive to expand Jewish settlements could have much greater effect. What's more, Mr Natan Sharansky, leader of a new immigrant party, must also be given a senior post. He has demanded the housing portfolio, and has made clear he will not settle for a lesser ministry, apart from education; but that will almost certainly be given to the National Religious party, Mr Netanyahu's main coalition partner.

Other politicians who must have senior jobs are Mr Ehud Olmert, rightwing Likud mayor of Jerusalem, and Mr Rafael Eitan, ultra-nationalist former army chief.

Conservative speaker elected by Iran *majlis*

By Robin Allen in Dubai

Iran's parliament, the *majlis*, yesterday elected the incumbent Mr Ali Akbar Nateq-Nouri, a leader of the hardline conservative group known as the Assembly of Combatant Clergy (JRM), as provisional speaker.

The vote for the speaker's job – a powerful parliamentary position – followed the two rounds of voting in the general elections in March and April, in which the JRM performed disappointingly. The group, which remains suspicious of economic, social or political change, lost the overall majority it had held in the previous, four-year parliament but can still claim the support of independent members.

Although Mr Nateq-Nouri's tenure is temporary – pending confirmation of the credentials of all the 257 MPs so far allowed to take their seats – senior diplomats in Tehran say the number of votes he received could be indicate a wind blowing in favour of the conservative hardliners.

Mr Nateq-Nouri won 132 votes against 105 for the moderates' candidate, Mr Abdullah Nouri, a former interior minister.

Analysts in Tehran say this year's speaker could also be a leading candidate for next year's presidential elections. For President Hashemi Rafsanjani, himself a former *majlis* speaker, the choice this month of a permanent speaker will also determine whether his reformist economic policies will be maintained beyond next year's presidential elections, for which, under the Islamic constitution, he is barred from being a candidate.

The vote yesterday represented a setback for the moderates, because the speaker sets the tone and direction of parliamentary debates. The final choice of speaker will be seen by analysts in Tehran as an important indicator of the success or failure of the economic reforms being urged by President Rafsanjani and by the reformist centre-right faction, the Servants of Construction, or G-6.

Following the second round of voting in the general election, winners were confirmed in only 257 out of the 270 constituencies, after the clergy-dominated Council of Guardians, which vets all parliamentary candidates, had annulled the results, without explanation, of 13 constituencies in six cities, including Isfahan, Iran's second most important city.

The annulments were all the more controversial because women candidates on the reformist ticket – which was led by President Rafsanjani's daughter, Faezeh Hashemi, who was elected in Tehran in the first round – were reckoned to have won the most votes in up to 10 of the constituencies with annulled results.

Women make up half of Iran's electorate. According to analysts, the comparative success of female candidates makes them a new force for gradual political liberalisation, away from the rigid rule of the more obscurantist clergy.

By-elections are to be held during the next few months in all of the 13 constituencies.

In the general election, the JRM retained its position as the largest single group with 96 seats, down from its 150-160 in the previous parliament.

The G-6, which won 70 seats, and can count on up to 25 leftist independents for support on some issues, was widely seen as the main winner. However, there remain 51 independent deputies whose sympathies remain to be assessed.

The G-6 and their sympathisers are urging economic and political liberalisation after 17 years of what is seen as ideologically rigid, and economically inefficient, clerical rule. They point to the continuing debasement of the Iranian currency, the riyal, which in the last two months alone has fallen on the real "black" market by more than 5 per cent, to IR4,400 to the US dollar, and point to annual inflation running at 65-100 per cent.

INTERNATIONAL PRESS REVIEW

Israel as divided in the aftermath as in its vote

ISRAEL

By Julian Ozanne

Nothing worries Israelis more than the idea that their country is being split. It is a fear which speaks directly to a subconscious created by turbulent, ancient history.

The wafer-thin electoral victory by the rightwing leader Mr Benjamin Netanyahu over the prime minister Mr Shimon Peres last week resurrected this fear, almost as much as did the assassination of prime minister Yitzhak Rabin by a right-wing Jewish extremist last November.

"Half the public in Israel is now going around with a feeling that redemption is at hand; the other half believes it is trapped in a hell on earth," said Mr Hemi Shalev, a political commentator in Friday's *Ma'ariv* daily tabloid. "One part praises its deliverance from a great nightmare, and the other is apprehensive about terrors lurking just ahead. Some rejoice, others weep. The Israeli public has never before been so divided."

"Whoever thinks that he is living this week in the same state in which he lived last week, is like the fellow in the film who gets hit over the head by a falling brick and continues walking a few more steps before fainting," said yesterday's editorial in Ma'ariv.

Some commentators blamed Mr Netanyahu's campaign of fearmongering for dividing Israel. With a cartoon (shown right) spelling out the danger, Mr Yoel Marcus, senior commentator for the liberal *Ha'aretz* daily, said the worst possible scenario was coming true – a merger of the religious bloc of parties and the rightwing extremists in Mr Netanyahu's Likud party.

Others called on the prime minister-elect for restraint to heal wounds. "[He] now has an opportunity to open a new chapter… adopting a balanced approach that will calm the many groups who are concerned about the convening of his government." Ha'aretz said yesterday.

The right-wing *Jerusalem Post* yesterday avoided the esoteric soul-searching typical of Israel's media. It proudly proclaimed Mr Netanyahu's victory "the most stunning political upset in Israel's history". Its leader-writer bashed some traditional bogeys of the right: media abroad and the US administration, which it accused of interfering in the election to back Mr Peres.

Many a soul was also searched last week about Mr Yigal Amir, the killer of Yitzhak Rabin, having been allowed to vote, within the law, and about his ballot being among the last to be counted in the cliffhanger race. Mr Amos Oz, Israel's leading left-wing author, said in the daily tabloid *Yediot Ahronot* yesterday: "One thing is sure: Rabin's murderer was the only Israeli who voted twice – once with his pistol and again at the polling station."

Benjamin Netanyahu sits in front of a poster with his main campaign slogan: "Making a safe peace." He asks Arthur Finklestein, his US media adviser: "Can I take that down already?"

FT writers on issues facing the UN Habitat conference on urban development starting today in Istanbul

Private sector key to tackling urbanisation problems

Cities make countries rich; none of the world's high-income economy got that way by keeping the majority of people working on the land. In that sense, the fact that more than half of the global population will soon live in towns or cities is cause for celebration. Whether those cities will be worth living in, however, will depend on how they are built.

As the organisers of the United Nations Habitat conference, opening in Istanbul today, point out, developing countries are not urbanising faster than they have done in the past. Urban populations in the south grew rapidly in the 1980s, but they grew faster still during the 1950s. And few countries have matched the record set by the UK in the latter part of the 19th century, when the urban share of the population rose from 37 per cent to 60 per cent in just 30 years.

What is unique about the urbanisation of the 1980s and 1990s is the number of countries involved. It is the scale of change, rather than the pace, that leaves the UN predicting such a sharp rise in the share of world population living in urban settlements over the next few decades – from 25 per cent in 1975 to nearly 54 per cent in 2025.

Urbanisation triggers a huge need for new infrastructure and services: for housing, safe water and sewerage systems, good transport networks and, not least, effective control of pollution. More than a third of the urban population lives in substandard housing, and 40 per cent do not have access to basic water and sanitation.

According to the World Bank, the east Asian countries alone will need to invest $500bn over the next 10 years, solely in public infrastructure.

Given the constraints on public budgets, a large chunk of the funds for such projects – worldwide – will have to come from the private sector. Yet the areas with the most urgent need for private funds and ingenuity are often trickiest for governments to give up.

Many east Asian governments have promised to step up the pace of private-sector participation in urban infrastructure projects. But critics say that progress on the ground remains slow, partly because of fear of the popular reaction to private companies making money out of the demand for basic services.

Latin Americans tend to be no less concerned about putting core services such as water supply and sewerage into the hands of private profiteers. Yet the sheer weight of demand for core urban infrastructure, and shortage of public funds, mean that many governments have found themselves taking the lead in opening these sectors to private companies.

Argentina, Chile and Brazil are all now granting private concessions in areas such as water supply and road-building, with impressive results. In a matter of months the near-bankrupt city of Rio de Janeiro has put a good share of its roads and bridges into private sector hands. Its zeal to privatise many of Rio's best known landmarks has even extended to the Maracanã football stadium, which it plans to put up for private concession some time next year.

In all of these areas companies, like cities themselves, can be part of the solution, or part of the problem, depending on how governments are able to manage the urban development process overall. Several of the fastest expanding cities in east Asia have shown how striving to meet growing urban needs can deliver a virtuous circle.

Building housing, for example, means expanding business opportunities and rapid growth in local employment and average incomes, as well as an improvement in many inhabitants' quality of life. But that, in turn, attracts yet more migrants from the countryside – raising a whole new set of challenges for governments and business alike.

Some of the new public – and private – investments will be difficult to miss. If all goes according to plan, by 1998 Malaysia will have a new international airport at Sepang, south of Kuala Lumpur, equipped to serve up to 25m passengers a year and complete with "south-east Asia's largest covered car park".

In the meantime Shanghai will supposedly have acquired the world's tallest building, in the form of the $1bn, 95-storey Mori tower on the east bank of the Huangpu river.

Yet none of these headline-grabbing projects will make Asia's richest cities easier places to live and work in if governments do not get to grips with some of the more mundane side-effects of urbanisation, such as traffic congestion, pollution, and dealing with an ever higher volume of solid waste.

Optimists hope that cities such as Kuala Lumpur and Hong Kong will be able to use their new financial strength – and comparatively good record of managing urban change – to develop imaginative solutions to such worldwide problems which others may follow.

Others are less sanguine. But those two advantages alone leave both cities far better placed to deal with the challenge of urbanisation than most cities in Africa and Latin America.

Stephanie Flanders

Making a golf course from a trash mountain

WASTE

Garbage mountains in Cairo, golf courses at Chicago landfill sites, or western packaging refuse on the streets of Moscow underscore the varied challenge posed to the world's cities by rubbish.

While poorer countries are failing to collect up to as much as half, sometimes more, of the waste generated by urban dwellers, rich cities are struggling to deal with ever increasing amounts of rubbish.

Potentially, this presents opportunities worldwide for western waste companies, but in the short term, they are looking for a firmer stance on regulation from governments. This is required both to stabilise markets for recyclable commodities and help them decide whether it is worth investing in costly new waste disposal facilities.

In developing countries, for instance, a basic condition for western private investment has to be the ability of local communities to pay for services. Unless they can, Mr Alain Lambert, director-general of Sita, the waste disposal arm of French water and waste conglomerate Lyonnaise des Eaux, sees little scope for western companies to do business in many developing countries.

"There is no market for me in Cairo," he explains. "Garbage disposal is free there," he adds, referring to the fact that much of it is simply dumped into garbage mountains.

Moscow stands in a symbolic half-way house between the industrialised and developing world. Having saved all available bottles, tins and plastic containers available under communism, Muscovites have been overwhelmed, since their dash to western-style capitalism, by disposable packaging from western food imports.

But the problems are at their most pressing in developing countries, where mounds of uncollected household rubbish expose people to disease and contamination of water and food supplies.

In Jakarta, for instance, 40 per cent of solid household waste is not collected: much of it ends up in canals, rivers, and along roads, clogging drainage channels and causing extensive flooding during the rainy season. A 1991 study related respiratory diseases among children to the burning of uncollected garbage.

The World Resources 1996-97 report prepared for this week's Istanbul conference admitted that western-style privatisation of waste services could not be seen as a "panacea" for the problems of many countries.

Instead it called for a "mix of public and private services" in dealing with waste problems. It cited Seoul, Kuala Lumpur and Bangkok as cities which had successfully combined some form of public solid waste collection service while privatising some parts of the city.

However, a challenge for both developed and developing countries is providing the right economic incentives for households and businesses to reduce, recycle, or otherwise recover the rubbish generated. An important part of that process is taxing pollution and pricing natural resources to discourage waste and reflect the cost of damage to the environment from rubbish.

Poverty is a powerful incentive for informal waste pickers in developing countries to scavenge around for rubbish.

Meanwhile, at a landfill site just outside Chicago, WMX Technologies, the big US waste management group, is keen to show off not only a golf course but also an electricity plant run on methane gas generated by the site. It admits, however, that it built the plant only because of the incentive of government subsidies.

Since 1980, the generation of municipal waste per capita has increased in all the countries of the Organisation for Economic Co-operation and Development except Germany.

The Japanese are building islands of waste in Tokyo Bay to cope with more than 22,000 tonnes of garbage generated by the capital each day. These in turn are threatening both shipping and the fishing industry.

Since the European Union followed Germany's lead and introduced rules requiring all member states to recover up to 65 per cent of their packaging waste by 2000, Britain has led the way in trying to achieve the targets at the lowest possible cost.

Mr John Gummer, UK environment secretary, claimed recently that a new industry-run scheme to collect a levy from companies which either use or manufacture packaging would cost industry just £50m ($75.7m) to £150m a year. This compared with the DM4bn ($2.6bn) price tag of the German system to achieve the same sort of packaging targets.

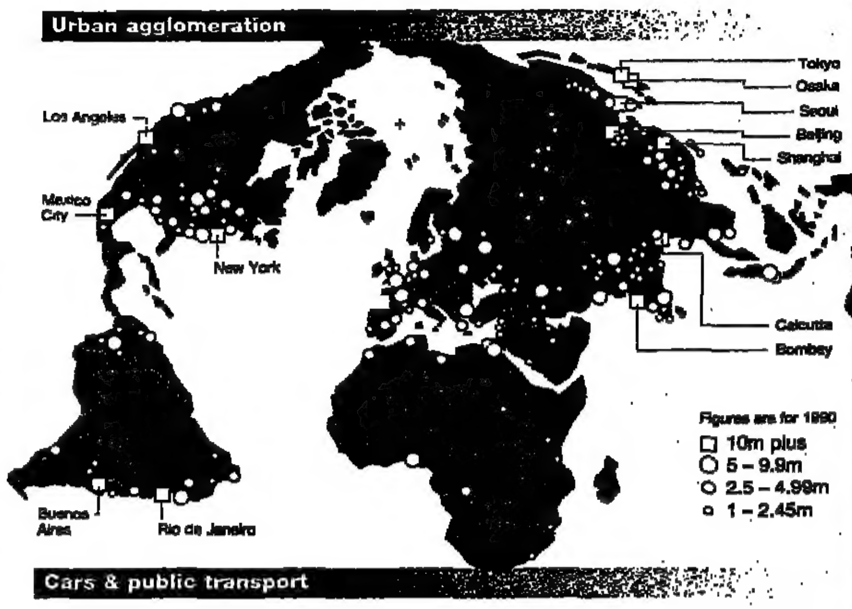
Britain has also become the latest EU country with a landfill tax to divert waste away from landfill sites and towards more environmentally friendly forms of waste disposal.

Mr Peter Jones, business development manager at Biffa, a UK waste management company which runs a number of landfill sites, voiced the optimism of many in the business that such developments were "an opportunity".

"This will shake up our whole industry," he said. "This is because our industry is still at the level where retailing was in the 1950s: we're still at the stage of supplying biscuits in a paper bag."

Leyla Boulton

Urban agglomeration

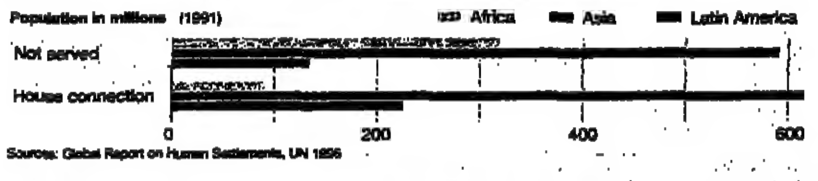


Cars & public transport

Per year 1980	Wealthy Asian cities*	European cities	US cities
Cars per 1,000 people	88	326	533
Gasoline use per person (megajoules)**	5,493	13,820	58,541
Car kms driven per person	1,067	3,485	8,715
Workers walking or cycling	25%	21%	5%
Population density per hectare	160	54	14

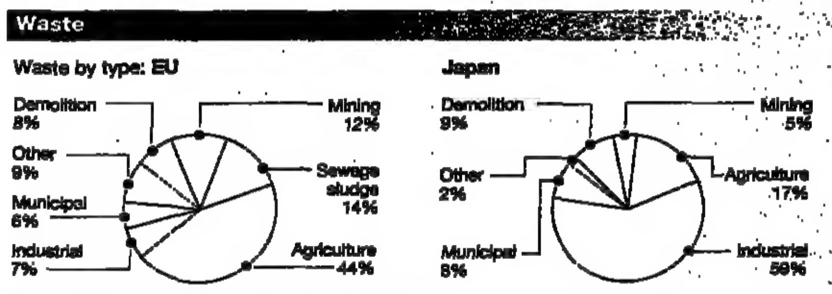
*Tokyo, Singapore, Hong Kong
**1,000 megajoules of energy = 29 litres gasoline

People with safe water supply



Source: Global Report on Human Settlements, UN 1996

Waste



Source: UNEP Environmental data report, Making Cities Work (1996)

Composite and graphic: David Case. Picture element: Sarah Errington

Pollution looms as economy booms in China

POLLUTION

Mr Xie Zhenhua, director of China's National Environment Protection Agency, must have one of the less enviable jobs in the country. His task – in a country whose growth rate is averaging 9 per cent and whose population is due to reach 1.3bn by 2000 – must at times seem almost insurmountable.

Mr Xie admitted as much recently at a symposium of business leaders in Beijing. The fast economic growth, accelerated urbanisation and population increase meant that China's "environment situation" was "still very serious", Mr Xie said.

"Environment pollution, with cities at the centre, is still developing and gradually extending to the countryside; the scope of ecological destruction is expanding and intensifying; and eco-environmental problems have become major problems affecting overall social and economic development in some regions."

At least Mr Xie could not be accused of understating the problem – although mere words can hardly describe strains on China's environment brought about by its extraordinary economic transformation in the 18 years since it began opening to the outside world. That transformation has accelerated in the past five years, bringing with it additional burdens to an already overstretched environment.

China has made much of laws and regulations passed since the early 1980s.

These include four main pieces of legislation, plus 20 environmental protection regulations and more than 320 environmental standards, apart from local regulations.

But in spite of this panoply of new rules, implementation has proved difficult.

The National Environment Protection Agency and its local offshoots have met strong resistance in their efforts to enforce regulations. Courts have not been very helpful in imposing severe penalties on offenders.

In a developing country where growth has assumed overriding importance, environmental protection agencies face a more than usually difficult task. But Chinese officials insist the message is getting through and various levels of government are becoming more sensitive to the dangers involved in neglecting risks to the environment.

Criticism of China's environmental record by international agencies, including the World Bank, appears to be having some effect.

The World Bank and others involved in development assistance, including the European Commission and Japan, are allocating additional resources to helping China combat pollution.

China's thermal power stations are a culprit. China's burns 50m tonnes more of standard coal to produce the same amount of energy as a developed country would with sophisticated environmental controls. This excess coal produces 1.4m tonnes of sulphur dioxide and 15m tonnes of smoke and dust, adding significantly to atmospheric pollution in the region.

The World Bank, in a landmark report, Urban Environmental Pollution, published in 1994, warned that China needed to take drastic steps both to encourage conservation of scarce resources such as water and to hit industrial polluters with tougher penalties.

The bank identified emerging rural manufacturers, – "township and village enterprises", the fastest growing sector of the economy – as a threat to China's already over-burdened environment.

It noted that in 1980, when the new environment regulatory system began to be imposed, these rural enterprises accounted for less than 10 per cent of industrial output but as much as 36.8 per cent in 1992. The study said it was especially worrying that smaller enterprises had avoided many of the restraints that applied to state-owned enterprises and the regulation problem could no longer be ignored.

The bank, in its plea for stiffer penalties to deter widespread flouting of environmental standards, said Chinese companies would have "no economic incentive to improve pollution control efficiency unless the expected cost of violation is raised through substantially higher fines and more frequent monitoring".

The study identified sewage and water treatment as a huge burden on the state, resulting in contaminated groundwater and polluted urban surface water across the country. "Nearly 40 per cent of urban China is unserved by sewers, with waste water going directly into lakes and rivers... only 4.5 per cent of municipal waste water flows receive treatment of any kind."

The study, in its conclusion, argued strongly that increasingly affluent urban consumers were "well positioned to absorb both the indirect and direct costs of an improved environment".

It went on: "While the imposition of user fees may be politically difficult, city leaders must recognise that the... current choice to rely on indirect payments leads to excess demand, on the one hand, and an inability to meet needs on the other."

Tony Walker

Nightmare of Bangkok's jams

TRAFFIC

Tic Jantacama is a typical Bangkok traffic victim.

A young mother, she leaves her house in Thailand's capital every morning at around 5am, puts her still sleeping son into the back seat of her silver Honda Civic and sets out into the hazy dawn.

By about 7.30am, her son, having breakfasted and got dressed in the car, is dropped off at a school a mere 20km away. Tic usually arrives at her antique handicrafts shop, 12km from the school, in time to open for business at 10am.

In a study to be presented at this week's UN conference on cities*, the World Bank recommends that urban centres throughout the world follow four guidelines when it comes to infrastructure development:

- Charge more realistic fees for services instead of subsidising the rich and middle-class.
- Make better use of local sources of financing, such as property taxes.
- Bring the private sector into areas where they are more efficient in managing and financing infrastructure.
- Improve the nuts and bolts of city management.

In her morning drive to work, Tic sees all four of these principles violated.

For more than two decades, a mishmash of government entities and private companies has succeeded in taking the immense business opportunities created by Bangkok's population and economic growth and turning them into a nightmare for residents – a bad dream from which transport experts say Bangkok may never recover.

Tic pays Bt30 ($1.18) to get on a toll road every morning. However, her toll goes into general government coffers and to a private concessionaire instead of paying for mass transit, or even for more roads.

What's more, the Thai government has sought to keep tolls as low as possible – to the point of taking over a privately built expressway in 1994 after a dispute over toll increases – thus providing a direct subsidy to those who own cars.

Tic's morning journey no doubt takes so long because there is no mass transit system in Bangkok.

The Thai government has been unwilling to use public funds for mass transit development, preferring to leave the task to the private sector, which has been forced to look overseas for financing.

Although a $1.7bn private-sector project is currently under construction, government refusal to guarantee the project means Bangkok will get a cheap system that brings its own safety concerns and environmental problems.

A $3.2bn project to be developed by Hong Kong's Hopewell Holdings is only 10 per cent done – more than five years after the contract was signed.

Part of the problem is that the private sector, so successful in things such as electricity generation, has not proved to be efficient at financing or managing transport projects.

"Our experience with projects in Asia has shown that... commercial risk is rarely a problem except in the transport sector," Mr William Wilson, the Hong Kong-based managing partner of Kelley Drye & Warren, a law firm dealing with project financing issues, wrote recently.

Finally, Bangkok city management is in chaos. Transport policy development and implementation is overseen by 10 agencies answering to four ministries answering to two deputy prime ministers.

*Livable Cities for the 21st Century, World Bank.

Ted Bardacke

One in eight city-dwellers has no safe, reliable supply

WATER

For every citizen of Manila some 62 litres of water go missing every day, lost through theft or leakage from the city's dilapidated mains system.

The total wastage, equivalent to the entire consumption of 2m Britons, is not extraordinary by the standards of cities in developing country. But it is a stark reminder of how ill-equipped Manila – and the developing world in general – remains to supply its inhabitants with such a basic need.

Water is not an obvious problem, especially in tropical regions where it seems to rain all the time. But development experts believe adequate supply is one of the biggest challenges facing governments as they grapple with the consequences of rapid urbanisation and industrialisation.

The Asian Development Bank (ADB) has estimated that demand for water in Asia alone will double by the year 2025. In north China there is already acute depletion of aquifers at a time of surging demand.

Mr Michael Cohen, a senior adviser at the World Bank, says about $100bn was spent in all developing countries during the 1980s to improve water supply. Yet some 220m city dwellers – or one in eight of the urban population – still have no access to a safe and reliable water source. Only 2 per cent of waste is treated in developing country cities.

Experts say a full-scale crisis can be averted, but only if governments take a careful approach to planning, allocation and regulation. Also required is a partnership with the private sector, without which governments will be unable to afford to rehabilitate and expand supply systems.

"It is more a management problem than a crisis," says Mr Jeremy Berkoff, an ADB consultant. Water shortages need not inhibit economic growth, though in such cities as Madras, where poor management and planning have led to chronic shortages, he admits there is some evidence of this starting to happen.

The first task is to plan allocation and supply of what has become a scarce resource, says Mr Cohen. Governments must take decisions about how much water to make available for irrigation, and how much should be made over to urban residential and industrial users. Then, appropriate pricing policies are needed to reinforce these allocation decisions.

Getting the right balance requires some awkward decisions. In restricting the use of water for irrigation, countries may have to balance the need to supply cities with their desire to promote farming for reasons of food security. Or they may aggravate the trend towards migration to the cities, as has happened in Malaysia.

To encourage efficient use of water, countries have to impose pricing policies which may meet resistance from poor consumers. In Manila, consumers prefer to dig wells, which undermines the water table, or steal from the official system, rather than pay.

The most successful countries are those which have got the basic planning right. South Korea has an independent body responsible for long-term planning. As a result the country has built up a supply network with a capacity 7 per cent in excess of needs, although there are still localised shortages.

By contrast, China is only beginning to address the problem and admits it may take decades to deal with the silting up of the Yellow River. India suffers from a serious planning failure, as the problems in Madras show.

Even with good planning, the private sector must play a large role. Its ability to enhance revenues and manage supplies efficiently reduces the cost of providing water.

Without that, few governments could afford the capital outlays needed to deal with leakages that amount to as much as 30 per cent in Mexico City and 50 per cent in Manila.

Moreover, says Mr Arthur Ferry, international division finance director at the UK's United Utilities, lending banks like to see the involvement of a private sector company. "Their presence will give confidence in a return sufficient to pay off the debt, especially if their own equity is on the line."

Together, good planning at government level and contributions from the private sector may be enough to meet demand, experts believe.

They cite the case of Jordan, a naturally arid country, but still with a reasonable growth rate, to show that water shortage need not get in the way of development.

But private-sector involvement alone is not the answer. Perhaps the greatest success story is the 30-year comprehensive concession won by a consortium led by Lyonnaise des Eaux in Buenos Aires which has cut water bills, prevented shortages and diminished pollution.

Lyonnaise, together with the International Finance Corporation, the private-sector arm of the World Bank, was involved with overall planning. As a result, its operation has been more successful than a comparatively piecemeal one in Mexico, which has been hampered by lack of government finance and poltical arguments over billing and metering.

Private-sector companies can advise on policy, says United's Mr Ferry. "That process will produce more effective solutions at a more economic price than a lot of heavily contested competition."

Peter Montagnon

Oil refinery and gold mine feature in purchases

West benefits from Kazakhstan sell-off

By Sander Thoenes in Almaty, Kazakhstan

Western companies have won control of some of Kazakhstan's biggest industrial companies, collectively valued at more than $1bn, after weekend sales designed to show government commitment to "open and transparent public tenders".

The purchases include the country's main oil refinery, a sizeable oil enterprise and the fourth largest undeveloped gold mine in the world.

The government of Kazakhstan decided to sell the businesses by public tender in order to restore confidence among investors, who have been shaken by a series of scandal-ridden contracts which were awarded without tender at undisclosed sums.

"It's a key event. The government is striving for open tenders to attract a wider range of foreign investors," said Mr Nurzhan Subkhanberdin, chairman of KazKommertsBank, one of a group of consultants to the oil tenders.

"In this country, there are opponents and supporters of privatisation. A successful deal will pave the way for more tenders."

A consortium of three western gold companies – Teck, First Dynasty and Bakyrchik Gold – won exclusive rights to negotiate a contract for a majority stake in the Vasilkovskoye gold ore deposit, which has proven extractable reserves of 6.5m troy ounces.

The group will pay $85m for the purchase, and has pledged $360m in investments, and undisclosed royalties, in return for an 80 per cent stake in the mine.

But Mr Curtis Coward, adviser to the government from the US law firm McGuire, Woods, Battle & Boothe, said the government would try to negotiate a better offer for a smaller share and reserved the right to approach the other bidders if no deal had been reached by July 1.

Vitol, the Dutch oil trader, won an open tender for purchase of the Shimkent oil refinery, Kazakhstan's largest, with a cash bid of $230m and pledges of investment.

Samson, the US oil company, and Hurricane Hydrocarbons of Canada were the only bidders for Yuzhneftegaz, a Kazakh oil enterprise with proven hydrocarbon reserves of 650m barrels, but the organisers of the tender would not comment on the outcome.

In addition, Exxon and Texaco of the US are considering a bid for Aktyubinskneft, an oil production association with reserves of 1.4bn barrels. The bid deadline has been extended to August 1 to allow for "due diligence" investigations.

The Vasilkovskoye mine is the world's fourth largest undeveloped mine but many big foreign gold companies lost faith in Kazakhstan when the government cancelled an auction for the mine last year and handed it directly to Placer Dome of Canada.

In the event, Placer Dome never signed the contract. The cancellation also ruined relations with the European Bank for Reconstruction and Development, the main financier for investment projects in the region.

Gold analysts had long since predicted a victory for Bakyrchik, led by Mr Robert Friedland, a Canadian businessman who bailed out Bakyrchik earlier this year with funds from Malaysian and Indonesian investors. His group had tried to buy Vasilkovskoye outright but won the tender after joining forces with two other bidders, Teck and First Dynasty.

"We had two objectives," said Mr Coward. "One was to attract a respectable mining company. The second was to ensure that we re-established good relations with the European Bank for Reconstruction and Development and the mining sector. We feel we accomplished both objectives [in the bidding for the gold mine]."

There was only one bid for the refinery after Munayinvest, a small Kazakh investment company, teamed up with Vitol and submitted a joint bid. After government officials objected that the lack of counter bids would render the tender vulnerable to criticism, Munayinvest submitted a separate bid, $75m below Vitol's. "It was only a one-horse race anyway," a source close to the bidders said.

Major oil companies, including Canadian Occidental and Chevron, dropped out of the tender for Yuzhneftegaz, too.

Mr Sarybai Kalmurzayev, chairman of the State Property Committee, said the oil production association had limited appeal because its oil was not suitable for export; oil executives said they had too little information and were worried about the solidity of the company's licence to the Kumkol oilfield.

"My aim was to ensure transparency, to have a normal tender take place," Mr Kalmurzayev said. "The most important thing is not that we had two or three bids, but that the tender took place at all."

New Zealand 'least corrupt country'

By Peter Norman in Bonn

New Zealand is the world's least corrupt country, in the opinion of international business people, while Nigeria appears to be the most corrupt, an influential pressure group reported yesterday.

The 1996 corruption perceptions index, produced by Transparency International (TI), a multinational organisation dedicated to curb corruption in international business, included four European Union nations among its 10 least corrupt countries surveyed.

Denmark, Sweden and Finland were second, third and fourth in descending order of virtue, while the Netherlands ranked ninth out of 54 nations in the TI index.

With non-EU Norway in sixth place, Scandinavia emerged as the region with the cleanest reputation.

Switzerland was ranked eighth and Australia 10th.

Canada, in fifth place, had the best reputation among the Group of Seven leading industrialised countries. The other G7 nations were placed in the lower half of the TI top 20, except for Italy – in 34th place and so considered the most corrupt G7 and EU nation.

TI, with headquarters in Berlin, defines corruption as "the misuse of public power for private benefits".

Its index, launched last year with coverage of 41 countries, tries to assess the degree to which public officials and politicians in particular countries are involved in such practices as accepting bribes, taking illicit payments in public procurement and embezzling public funds.

The index is a "poll of polls" based on 10 international business surveys.

Mr Peter Eigen, TI chairman, stressed that it did not assess the corruption level in any given country. Also, as the index excludes more than 100 countries, TI does not claim to pinpoint the world's most corrupt nations. However, it hopes the index will stimulate governments to curb corruption and TI intends to expand its coverage.

Singapore, in seventh place, emerged with the cleanest reputation in Asia, followed by Japan in 17th place and Hong Kong in 18th.

Britain, ranked 12th, was considered the least corrupt of the larger EU members, ahead of Germany at 13th, France at 19th and Spain at 32nd. The US was ranked 15th, behind Israel, included for the first time at 14th.

Chile, in 21st position, had the healthiest reputation in South America, followed by Argentina at 35th and Bolivia at 36th.

South Africa at 23rd was deemed the least corrupt sub-Saharan country, followed by Uganda at 43rd.

Poland and the Czech Republic were the cleanest former communist countries at 24th and 25th respectively. Jordan, in 30th place, was considered the least corrupt Arab nation, ahead of Egypt at 41st.

Russia was ranked 47th in the TI table, just behind the Philippines, Indonesia and India. China, in 50th place, came behind Venezuela and Cameroon and ahead of Bangladesh, Kenya, Pakistan and Nigeria.

Mr Johann Graf Lambsdorff, head of the index research team at Germany's Göttingen university, said there could be some bias in favour of western industrial nations because many people surveyed came from such countries.

Mr Eigen acknowledged that many developing countries emerged as "highly corrupt". But he said the research offered little comfort to industrialised countries because executives from their corporations paid most of the bribes on international contracts.

International Corruption: A survey of business perceptions

Rank	Country	Score 1996	Score 1995 (max = 10.00)
1	New Zealand	9.43	9.55
2	Denmark	9.33	9.32
3	Sweden	9.08	8.87
4	Finland	9.05	9.12
5	Canada	8.96	8.87
6	Norway	8.87	8.61
7	Singapore	8.80	9.26
8	Switzerland	8.76	8.76
9	Netherlands	8.71	8.69
10	Australia	8.60	8.80
11	Ireland	8.45	8.57
12	UK	8.44	8.57
13	Germany	8.27	8.14
14	Israel	7.71	
15	USA	7.66	7.79
16	Austria	7.59	7.13
17	Japan	7.05	6.72
18	Hong Kong	7.01	7.12
19	France	6.96	7.00
20	Belgium	6.84	6.85
21	Chile	6.80	7.94
22	Portugal	6.53	5.56
23	South Africa	5.68	5.62
24	Poland	5.57	
25	Czech Rep	5.37	
26	Malaysia	5.32	5.28
27	South Korea	5.02	4.29
28	Greece	5.01	4.04
29	Taiwan	4.98	5.08
30	Jordan	4.89	
31	Hungary	4.86	4.12
32	Spain	4.31	4.35
33	Turkey	3.54	4.10
34	Italy	3.42	2.99
35	Argentina	3.41	5.24
36	Bolivia	3.40	
37	Thailand	3.33	2.79
38	Mexico	3.30	3.18
39	Ecuador	3.19	
40	Brazil	2.96	2.70
41	Egypt	2.84	
42	Colombia	2.73	3.44
43	Uganda	2.71	
44	Philippines	2.69	2.77
45	Indonesia	2.65	1.94
46	India	2.63	2.78
47	Russia	2.58	
48	Venezuela	2.50	2.66
49	Cameroon	2.46	
50	China	2.43	2.16
51	Bangladesh	2.29	
52	Kenya	2.21	
53	Pakistan	1.00	2.25
54	Nigeria	0.69	

Source: The Transparency International Corruption Perception Index 1996

The rank relates solely to results drawn from a number of surveys and reflects only the perception of business people who participated in these surveys. A perfect 10.00 would be a totally corrupt-free country. Same methods, but fewer countries and surveys were used to arrive at 1995 score.

Johnston cautions against protectionist pressures and the growth of regional pacts

OECD chief urges free trade deadline

By Guy de Jonquières and Gillian Tett

Protectionist pressures in the west and the growth of regional trade arrangements are putting the world trade system at risk, the incoming head of the Organisation for Economic Co-operation and Development has warned.

Mr Donald Johnston, who takes over today as secretary-general of the 27-member organisation, said that governments should combat these threats by endorsing a long-term vision for the global economy and by setting a deadline for achieving free world trade.

He said that groupings such as the Asia Pacific Economic Co-operation (Apec) forum and the planned Free Trade Area of the Americas had adopted target dates for freeing intra-regional trade. However, the World Trade Organisation lacked a similar goal.

"No one has said we're going to have this agenda at this stage by a certain date. I think it would be very helpful if we started to think in terms of date objectives," he said. "We should have a vision of where we want the world to be in 2020."

Mr Johnston, who has made the promotion of free trade his top priority, said OECD members now agreed that reductions in budget deficits, privatisation and regulatory reform were essential to economic growth.

However, job losses caused by fiercer international competition were making it harder for western governments to maintain popular support for trade liberalisation.

"What you have is a debate about how you keep people satisfied that economic growth will be the product of the trade and investment agenda, that they will have their fair share of it, that they will all be winners," he said.

Mr Johnston, a former controller of Canada's national budget, said the problem had been made worse because world leaders were devoting more attention to regional trade arrangements than to the future of the multilateral trade system.

He said: "I think there is a real danger in regional thinking. I think regional blocs are a real menace.

"If the business community and the commercial world think they are going to be living permanently within, say, a North American Free Trade Agreement, they will adapt to that.

"There are a lot of companies in Europe and America that are quite happy with a market of 300m people. Many companies, the majority probably, think: 'If we have this market, we're okay, we're not going to let anyone else in'."

Mr Johnston's fears echo recent warnings sounded by Mr Renato Ruggiero, WTO director-general, that the multilateral trade system will suffer if regional groupings become too important.

Mr Johnston said he wanted the OECD to make its research capacity available to the WTO and to work closely with other international organisations, such as the World Bank and regional development banks, on ways of promoting free trade.

FT Interview: Global free-trade mission, Page 16

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on [illegible]: Pool purchase price £/MWh	Pool Prices for Trading on [illegible]: Pool purchase price £/MWh	Pool selling price £/MWh
0030	8.82	8.92	8.92
0100	8.83	8.91	8.91
0130	8.88	9.01	9.01
0200	8.90	13.45	15.29
0230	8.90	13.45	15.29
0300	8.88	12.24	14.07
0330	8.88	12.30	14.14
0400	8.83	7.50	9.33
0430	8.88	7.50	9.33
0500	8.87	7.50	9.33
0530	8.91	12.58	14.42
0600	8.89	8.58	10.60
0630	8.89	12.58	14.42
0700	8.89	12.58	14.42
0730	8.89	12.58	14.42
0800	8.88	13.54	15.37
0830	8.50	13.54	15.37
0900	15.75	13.54	15.37
0930	16.14	16.11	17.94
1000	16.14	16.64	18.47
1030	16.14	17.77	19.61
1100	24.91	17.77	19.61
1130	28.33	17.77	19.61
1200	31.12	17.77	19.61
1230	31.12	24.04	25.88
1300	31.12	24.04	25.88
1330	31.12	24.04	25.88
1400	24.91	17.77	19.61
1430	8.96	16.11	17.94
1500	8.95	15.91	17.75
1530	8.94	13.54	15.37
1600	8.92	12.58	14.42
1630	8.91	12.58	14.42
1700	8.92	13.54	15.37
1730	8.92	13.54	15.37
1800	8.92	13.54	15.37
1830	8.94	13.54	15.37
1900	8.94	13.54	15.37
1930	8.95	12.58	14.42
2000	8.94	12.58	14.42
2030	8.92	8.95	8.95
2100	8.96	17.69	19.53
2130	17.45	13.54	15.37
2200	24.91	17.69	19.53
2230	41.85	17.69	19.53
2300	41.85	13.54	15.37
2330	17.45	13.54	15.37
2400	15.75	8.92	8.92

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.86/MWh becomes 1.686p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6789 between 8.30am and 5.15pm Monday to Friday.
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0100	8.50	8.90	8.90
0130	8.50	8.92	8.92
0200	8.50	13.54	15.47
0230	8.50	13.54	15.47
0300	8.50	13.54	15.47
0330	8.50	7.50	9.43
0400	8.50	7.50	9.43
0430	8.50	7.50	9.43
0500	8.50	7.50	9.43
0530	8.89	8.91	8.91
0600	8.89	8.91	8.91
0630	8.95	8.91	8.91
0700	16.17	8.92	8.92
0730	18.21	12.22	14.15
0800	19.69	14.00	15.94
0830	19.50	18.62	20.55
0900	24.02	14.36	16.29
0930	40.87	19.96	21.89
1000	46.86	24.33	26.26
1030	48.77	24.33	26.26
1100	52.08	24.33	26.26
1130	68.35	19.96	21.89
1200	70.66	19.96	21.89
1230	70.55	19.96	21.89
1300	64.63	19.96	21.89
1330	54.66	18.62	20.55
1400	46.04	9.02	9.02
1430	44.47	9.01	9.01
1500	43.81	8.95	8.95
1530	44.14	8.95	8.95
1600	46.72	8.95	8.95
1630	56.28	9.01	9.01
1700	67.30	18.62	20.55
1730	65.19	19.96	21.89
1800	57.96	19.96	21.89
1830	29.44	18.62	20.55
1900	19.36	14.36	16.29
1930	18.36	9.01	9.01
2000	16.01	9.00	9.00
2030	16.78	9.00	9.00
2100	16.79	9.06	9.06
2130	18.25	27.82	29.76
2200	27.97	27.82	29.76
2230	27.97	27.82	29.76
2300	27.95	27.82	29.76
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Reforms will go on, Indian PM promises

By Shiraz Sidhva in New Delhi

Mr H.D. Deve Gowda, India's new prime minister, acted at the weekend to reassure foreign and domestic investors by pledging to continue economic reforms and naming as finance minister Mr P. Chidambaram, who as commerce minister in the defeated Congress administration was considered an architect of the country's liberalisation programme.

Mr Chidambaram resigned from that cabinet in April to protest against the Congress party's electoral alliance with the ruling party of Tamil Nadu, his home state. His departure helped bring about Congress's downfall in the April-May general elections.

In his first statement after being sworn in as prime minister, Mr Gowda stressed his government's commitment to carrying forward the process of economic liberalisation started under Mr P.V. Narasimha Rao in 1991. "I will continue to stand by Mr Rao's reforms, and will sort out any differences there may be among the parties of the coalition," he said. "I fully agree that global investment is important for India."

This followed the swearing-in on Saturday of what is India's first coalition government dominated by regional and "social justice" parties. The United Front government succeeds the Bharatiya Janata party government, which failed to secure a parliamentary confidence vote after less than two weeks in power.

The new government represents 14 socialist and leftist parties and is backed by Congress and the Communist Party of India (Marxist) from the outside. Mr Gowda had a difficult task appointing a 20-member cabinet that was acceptable to all the constituents of the coalition. The cabinet is dominated by leaders from India's lower castes and regional parties, though it members hail from only seven of India's 25 states.

The cabinet also includes Mr Inder Kumar Gujral as external affairs minister, Mr Murasoli Maran as minister for industry, Mr Devendra Yadav as commerce minister and Mr Mulayam Singh Yadav as defence minister.

In an interview last month, Mr Chidambaram, a Harvard-educated lawyer aged 51, said economic reforms would not depend on which government was in power, but on who the reformers were in it.

"Strong reformist leaders in charge of four or five key ministries – finance, commerce, industry and agriculture – could push the reforms component through more effectively in an apparently weak government than no reformers in a strong government," he said. "The Rao government was perceived to be weak between 1991 and 1993, and strong between 1993 and 1996, but the better part of reforms took place in the preceding three years."

> 'A government formed by June 1 must decide on the budget deficit by August 1'

According to Mr Chidambaram, the new government would have to tackle the issue of the budget deficit 60 days after it assumed power. "The world is willing to pause for the moment, but a government formed by June 1 will be forced to take key decisions on the budget deficit by August 1," he said.

Mr Gowda is expected to win a vote of confidence in the lower house on June 10, two days before the deadline set by the president for him to prove his majority. The prime minister retains the home and agriculture portfolios.

Row escalates with Taipei authorities over payments for work on commuter rail system

Matra Hachette offshoot may quit Taiwan

By Laura Tyson in Taipei

The transport arm of France's Matra Hachette industrial group has warned it intends to pull out of Taiwan following long-running differences with the Taipei city authorities over work on the capital's newly opened commuter rail system.

Talks over payments owed to Matra Transport broke down last week and the city government said it would foreclose on a T$500m (US$18m) performance bond pledged by Matra to guarantee completion of its work on the project. Matra called the move "groundless".

The Department of Rapid Transit Systems (Dorts), the city agency in charge of construction of the mass transit system, has "unfairly" delayed issuing final acceptance, Matra charged in large front-page advertisements in the island's two English-language newspapers. The line has continued to run but its future operations may be in jeopardy without Matra's technical assistance.

"The situation is totally contrary to international business practice (and) represents a material breach of contract that Matra Transport deplores," the statement said. Matra Transport had no choice but to cut its losses on the project and withdraw personnel from Taiwan, it said.

But the company added it was "obviously willing to find a fair and equitable solution" to the "critical" situation. Mr Chen Chao-wei, chairman of the Taipei Rapid Transit Company, which is in charge of the system's operations, said he hoped Matra would "calm down so we can resume talks". Dorts officials said the final acceptance could not be issued until unspecified repairs were made by Matra.

The Mucha line, for which Matra won the construction contract in 1988 and finally opened to the public at the end of March, is no stranger to controversy. During its construction it has been plagued by corruption scandals and several well publicised disputes between Matra and the Taipei city government.

For several months, the two sides have been negotiating over the portion of Matra's T$7.56bn contracted payment still outstanding – amounting to T$720m – and a maintenance contract for the line. But talks ended in stalemate because Matra refuses to sign a maintenance contract before it receives full payment for construction, and the Taipei city government refuses to give final payment until Matra signs a maintenance contract.

The project has been a lossmaker for Matra, which claims it should be compensated for extra costs due to construction delays amounting to T$3bn.

In October 1993 an independent arbitration panel awarded Matra 60 per cent of damages sought, but the decision was overturned by a Taiwanese court. Matra has appealed and a decision is pending.

Havelange suffers a bruising Fifa tackle

By Jimmy Burns in Zurich

Mr João Havelange was looking forward to celebrating his 80th birthday in Zurich last week with his position as president of Fifa, world football's governing body, unchallenged after 22 years at the helm.

Instead, two decisions taken by previously loyal members of his executive committee have left Mr Havelange's position badly dented, with senior officials of his own organisation questioning whether he will survive much longer in one of the key roles of global sport.

The decision by Fifa's executive committee last Friday that the 2002 World Cup be co-hosted by Japan and South Korea and that television and marketing contracts be renegotiated was the equivalent, in the slow-moving internal world of Fifa, to a palace revolution.

Mr Havelange had openly backed Japan's bid against that of South Korea, rejecting an earlier proposal for co-hosting as "against the rules". In fact, there is nothing in Fifa's statutes that says a World Cup should take place only in one country.

At the same time, he had continued to give his blessing to the secretive negotiations of TV and broadcasting rights by Mr Joseph Blatter, his general secretary, on the assumption that the 2002 World Cup would be staged in one country.

Both issues have been turned by opponents of Mr Havelange within his executive committee into key tests of the president's style and conduct. Since elected in 1974 on a promise to expand football to African and Asian countries, Mr Havelange has transformed Fifa into a global enterprise worth millions of dollars.

But his autocratic style and habit of manipulating Fifa's pyramid structure of internal committees – hand-picking members to increase his power base – have been increasingly criticised by members of the executive committee who feel they have powerful organisations behind them.

The president of the European football organising authority Uefa, Mr Lennart Johansson, who is also a vice-president of Fifa, brought the rumblings to the surface last year by calling for much greater democracy within Fifa.

Mr Johansson forged a behind-the-scenes alliance with Mr Chung Mong Joon, the South Korean who represents Asia on the executive committee and who, in a confrontation with Mr Havelange last December, claimed that TV and marketing rights were being negotiated by "too few people behind closed doors."

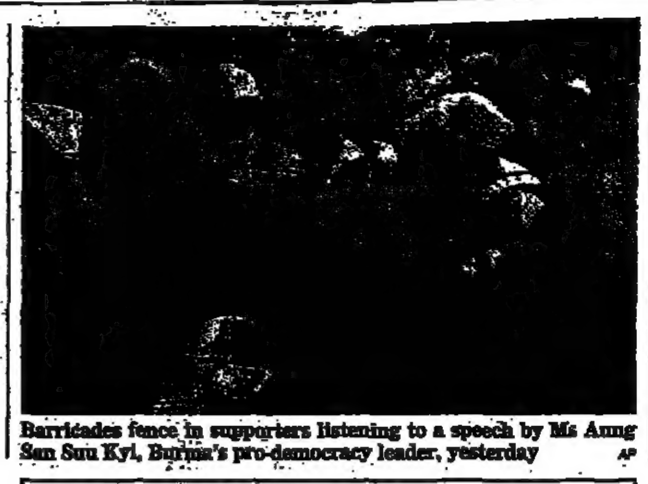
Mr Chung has been a leading figure behind his country's bid for the World Cup, skilfully falling behind the co-hosting option first pushed by the Europeans last month on the official grounds that the World Cup issue was threatening to refuel old antagonisms in the Asian region and when it looked as if Japan might win the venue.

Following Friday's decision, Mr Johansson is looking forward to realising his ambition of succeeding Havelange as president when the next election is due in 1998.

As for Mr Chung, he feels that his involvement in Fifa's controversial debate has enhanced his political ambitions. Already a member of parliament and the son of the founder and owner of the powerful Hyundai group, Mr Chung wants to be a future president of his country.

The question mark remains over Mr Havelange himself who, for the moment, is refusing to declare his hand. His opponents say they will not move to dethrone him prematurely as long as he embraces the new spirit of democracy.

He may be biding his time until Fifa's congress in July – with the attendance of many still-loyal delegates – to decide whether his regime is irrevocably over.



Barricades fence in supporters listening to a speech by Ms Aung San Suu Kyi, Burma's pro-democracy leader, yesterday AP

INTERNATIONAL NEWS DIGEST

Sherritt urges Cuba talks

Sherritt International, the Canadian company at the centre of a growing row over threatened US sanctions against foreign investments in Cuba, has said it is continuing operations on the island but has called for diplomatic efforts to resolve the dispute.

Mr Ian Delaney, Sherritt chairman, flew to Havana for talks with Cuban officials on Friday, a day after he received a letter from US authorities warning him that he faced possible sanctions under recent US legislation aimed at discouraging foreign capital ventures in Cuba. Toronto-based Sherritt has investments in nickel mining, oil production, tourism and agriculture on the island.

Letters were also sent by Washington to Mexico's Grupo Domos and Stet of Italy. *Pascal Fletcher, Havana*

Pakistan in $120m Mirage deal

Pakistan has bought 40 used Mirage III jet fighters from France for $120m, a Pakistani Defence Ministry official said yesterday. The official said Pakistan was expected to receive the first batch of six aircraft from Sagem, the French electronics company, in August and that the rest would arrive over the next 18 months.

Pakistan, which already uses Mirage IIIs and Mirage Vs, had bought 50 used Mirages from Australia in 1989. Islamabad is also negotiating with Dassault of France to buy an unspecified number of top-of-the-range Mirage 2000-5 jets, which it needs after the US stopped the sale of F-16 jets in 1990 over a nuclear row. *Reuter, Islamabad*

More unrest in Xinjiang

Separatist troubles are continuing in China's far-west Xinjiang region, with reports at the weekend of further killings of security personnel. The China News Service said a policeman was shot and killed on May 27 by separatists wanted in connection with attacks on officials in early May.

The latest killings follow persistent reports of clashes between security forces and separatists leading to more than a dozen deaths in Xinjiang in the past several months. China has cracked down on separatist violence in Xinjiang and in Tibet in a campaign that appears to reflect increasing concern about challenges to Beijing's authority on its remote frontiers.

Chinese officials blame a surge of separatist activity on the influence of fundamentalist Islam from neighbouring areas. Xinjiang borders three predominantly Moslem former republics of the Soviet Union. *Tony Walker, Beijing*

Inkatha and ANC raise hopes for election

By Mark Ashurst in Johannesburg

Hopes of a peaceful provincial election in South Africa's volatile KwaZulu Natal have been revived by local politicians after the failure of national leaders to agree on measures to reduce violence.

Provincial MPs from the African National Congress and the rival Inkatha Freedom party have for the first time publicly acknowledged their role as "warlords" in regions where violence has been most intractable. They have also pledged to support electioneering by opponents in their own strongholds.

Mr Sifiso Nkabinde, an ANC MP in the provincial parliament, announced he would escort his Inkatha rival Mr David Ntombela, also a provincial MP, to campaign in settlements supporting the ANC in the Midlands region.

Mr Ntombela will reciprocate in areas traditionally loyal to Inkatha, as part of a joint campaign to promote political tolerance. "If anyone shoots at me than Nkabinde and I will fight back together," he told a local newspaper.

Local elections in the province have twice been postponed due to administrative difficulties and the high level of violence, but are likely to go ahead on June 26. During talks last week, at least six provincial MPs were identified as warlords.

The provincial government is controlled by Inkatha, which won 51 per cent of the vote in the April 1994 election although both parties believe the result was distorted by widespread fraud and intimidation.

The ANC, whose organisational structures in the province have weakened since 1994, and Inkatha have both launched vigorous campaigns. But hopes of a peaceful election have hitherto been stalled by the breakdown of talks between national leaders on a strategy to combat violence.

In April, President Nelson Mandela announced he would address a traditional gathering of Zulu leaders to be called by the Zulu King Goodwill Zwelithini. But a subsequent attack on the king's palace in which his second wife and a daughter were seriously injured, and the eruption of gunfire during a march through Durban city centre by Inkatha-aligned hostel dwellers last month, have scuppered the plan.

The latest initiative has emerged from talks ahead of a peace summit on June 13 organised by local church leaders. Although it has been endorsed by the national leadership of both parties, it reflects growing frustration among local politicians who believe that the provincial government has been hamstrung by disputes at national level.

Most of these, notably over Inkatha's boycott of the constitution-drafting process and the future of the government of national unity, have been overtaken by events.

The adoption of a final constitution on May 8, and the white-led National party's decision to quit the coalition government of national unity, have diminished the influence of hardline factions in Inkatha's leadership who have vigorously opposed co-operation with the ANC. The approach of the local election has also shifted Inkatha's focus back to its traditional KwaZulu Natal power base.

The new initiative will have its first test in the warlords' reaction to the assassination of Mr Mandlezizwe Mbanjwa, an ANC candidate in the Donnybrook ward, who was shot dead by three armed gunmen on Friday.

Indonesia threatens showdown on E Timor

By Peter Montagnon and Manuela Saragosa in Jakarta

Indonesia has warned it will eventually force a showdown with Portugal in the United Nations over the controversial question of East Timor unless there is progress in bilateral discussions on the political status of Lisbon's former colony.

The blunt statement from Mr Ali Alatas, foreign minister, at the weekend is designed to put pressure on the new Portuguese foreign minister, Mr Jaime Gama. Mr Alatas is due to meet his Portuguese counterpart for a second round of talks in Geneva later this month.

Indonesia, whose international relations have been long constricted by opposition to its claim of sovereignty over East Timor, was frustrated by the failure of negotiations with the previous Portuguese government, Mr Alatas said.

It now believes that the new socialist government is prepared to be more flexible and that Indonesia would win support in the UN for a resolution acknowledging its sovereignty over the territory, which it annexed in 1976.

"We're ready for a showdown any time," Mr Alatas said in an interview. "If it's in the General Assembly we have the numbers, and they know that. But we want a solution which is more or less durable and where no one feels a loser."

Indonesian diplomats say their case would receive support in the UN from other developing countries, notably allies in the non-aligned movement, which it chaired for three years until January, and from other members of the Association of South-East Asian Nations (Asean).

The mere fact that Indonesia feels able openly to consider such a move is an indication of the growing international political weight of the fast growing south-east Asian region. Mr Alatas said his message should not be seen as an ultimatum.

"I don't think we should give ourselves or each other a deadline," he said.

But he pointed out that Portugal had refused on two occasions – in 1987 and 1991 – to adopt a UN suggestion of an independent fact-finding mission followed by an open discussion and a vote among members.

The new Portuguese government had shown some signs of wanting to improve relations. Mr Gama had been prepared to discuss the question of indirect establishment of diplomatic relations through special interest sections in a third country.

But Indonesia felt it was now up to Portugal to make proposals of its own, Mr Alatas said.

Indonesia's President Suharto, who is reluctant to travel in the west because of concern over demonstrations about East Timor, again firmly ruled out autonomy for the territory at a meeting with Australian newspaper editors last month.

Indonesia's view that most East Timorese have long accepted Indonesian sovereignty has still not been accepted by the UN.

It is challenged not only by Portugal but also by leading human rights organisations.

NZ shines a torch into banks' vaults

Public disclosure is crux of a new system of supervision, writes Nikki Tait

New Zealanders doing business at Countrywide Bank now find a new leaflet in the bank's branches – a two-page document heaped with figures and ratios trying to tell them just how safe their money is.

This "disclosure statement" is the first visible product of New Zealand's innovative attempt to deregulate supervision of its banks.

Under new arrangements, the Reserve Bank of New Zealand (RBNZ), the central monetary authority, will no longer vet the country's 15 banks on the basis of information provided privately by their managements.

Instead, the banking system's health will depend on a formalised system of public disclosure. All banks must make public quarterly statements about their activities and financial position, and put summaries of these in their branches.

The RBNZ will still monitor banks, using this information and talking to management. But ultimately it will be up to depositors to ensure their money is in good hands.

Countrywide, an offshoot of Bank of Scotland, last Friday was the first bank to publish disclosure statements. Most competitors, with slightly later year-ends, are following suit this month.

The rationale for the change has aroused international interest. Several years ago, the RBNZ decided traditional arrangements had only limited effectiveness. In particular, it was worried that central bank supervision might even reduce incentives for bank directors to do their own monitoring.

It was also concerned about compliance costs in a conventional supervision system and the possible burden on taxpayers if a bank failed.

But implementing the new arrangements was not easy. While few bankers have expressed outright criticism, Reserve Bank officials concede the banks were not "hyper-enthusiastic".

Resistance stemmed partly from the administrative load. "It's rather bureaucratic," says much. It points out that compliance fees, previously paid to the central bank and costing the sector around NZ$1m (US$684,000) a year, have been waived. Some former prudential lending limits have also been relaxed.

But administrative problems are not the only sticking point. A more fundamental issue is whether increased public information could give competitors an advantage.

This question has surfaced, for example, in respect of market risk disclosure. "New Zealand's a village... If you're

> Ultimately it will be up to depositors to ensure that their money has been put in good hands

Mr Bruce McComish, finance director of National Australia Bank, which owns Bank of New Zealand.

Countrywide, for example, has had to print 3,500 copies of its summaries; organise back-up printing facilities; and brief all branch staff in case customers ask questions.

There is also concern that the experiment could be the thin end of a wedge. Fourteen of New Zealand's 15 banks are foreign-owned and, as quarterly reporting becomes standard for New Zealand operations, this could put pressure on overseas parents to follow suit.

"There's a danger of the New Zealand tail wagging the tiger," says one observer.

The Reserve Bank thinks the banks should not protest too required to disclose a foreign exchange position, it doesn't take a genius to work out who you're playing footsie with," says one sceptic.

In fact, the first quarterly disclosure statements will not include detail on market risk positions, although Reserve Bank officials claim the difficulties in presenting this information have now been overcome.

A third problem has centred on how to ensure equality of information between foreign-owned banks which are locally incorporated and those – such as Westpac New Zealand – which are treated as a branch operation by their foreign parent.

Finally, there has been debate about directors, who now face potentially unlimited personal liability if creditors lose money as a result of a false or misleading statement.

But if some opposition was predictable, the more surprising aspect of this exercise is the scant attention paid by ordinary New Zealanders.

The country's banking ombudsman says the subject has hardly been mentioned in letters crossing her desk. The Consumers' Institute, the consumer lobby group, is similarly sanguine.

There are a number of explanations for this. First, in contrast to many developed countries, New Zealand has never had any form of deposit insurance (where the government guarantees the return of all or part of depositors' money).

But while a couple of New Zealand institutions have flirted with disaster in recent years, no ordinary bank depositer has lost money within living memory. In short, banking risk does not seem to be a pressing consumer concern.

Second, the country has had so much deregulation in the past decade that changes to bank supervision may look modest. Few people in Wellington are aware of the new system but few are likely to be surprised in the light of the country's pro-market philosophy.

The degree of foreign ownership of banks complicates the situation. "New Zealand has, in a sense, outsourced its regulation to other regulatory authorities," says Mr Bob Joss, the former Wells Fargo banker who now runs Sydney-based Westpac, which will become the largest bank operator in New Zealand when it completes the purchase of Trust Bank.

"It is one of the few countries in the world where all the major banking is being done by institutions that are not headquartered in New Zealand. They still have the Reserve Bank of Australia or the Bank of England to supervise the banks that are operating in New Zealand."

Like many other bankers, he claims this limits New Zealand's potential to become an international model: "It's an interesting approach... but a lot of it wouldn't be possible to copy."

But perhaps the main reason for depositors' sang froid is the lingering belief that if disaster strikes and small savers' money is at risk, the political impetus for an official rescue package would be irresistible.

"That's the swamp territory behind the system," says one banker.

"I don't think anyone believes the impact would be very different today. If there was a public outcry, there'd be too many MPs with depositors in their constituencies."

The Consumers' Institute agrees: "If a major bank was in trouble, there's a reasonable belief that the Reserve Bank would either step in, or arrange a solution."

Government to ease demand on IRA arms

By John Murray Brown in Dublin

The British and Irish governments are understood to be considering a fresh concession to Sinn Féin, the IRA's political wing, by agreeing to postpone discussion of arms decommissioning until September.

The move would give the all-party talks that start next week three months to make progress. Sir Patrick Mayhew, chief Northern Ireland minister in the British government, conceded during the weekend that the government had changed its position. He said it was not realistic to expect the IRA to hand over its arms at the start of the negotiations, which are due to open in Belfast on June 10.

Sir Patrick said all parties would have to commit themselves to the non-violent principles outlined in the report on decommissioning. The document was produced last January by an international commission led by former US senator Mr George Mitchell.

However, senior officials confirmed the two governments were considering building in a "review date" in September, when the parties would consider progress by paramilitaries towards decommissioning their arsenals.

Sir Patrick and Mr Dick Spring, deputy prime minister in the Republic of Ireland, are due to meet in London tomorrow in a further attempt to agree an agenda for the talks and a choice for the chairmanship of the negotiations. The Irish government favours Mr Mitchell for the role.

Mr Spring said he was hopeful they could "tie down" the outstanding matters "in a way that would bring all parties to the table."

Sir Patrick's comments on *BBC Radio* in Northern Ireland are seen in the republic as an attempt to encourage another IRA ceasefire, which both governments insist must be in place for Sinn Féin to join the other parties at the talks on Northern Ireland's future.

The move was welcomed by Mr John Hume, leader of the moderate nationalist Social Democratic and Labour party, though there was an angry reaction from the hardline anti-nationalist Democratic Unionists.

The Ulster Unionists, the region's largest pro-British party, insist that before talks get under way Sinn Féin should have to agree a timetable which would commit paramilitaries to hand over weapons by specified dates during the negotiations.

Sir Patrick's comments represent a shift from the UK government's initial demand that all arms be handed over before talks. This was later modified to a call for some arms to be decommissioned before negotiations as a gesture towards democracy.

The change comes in the wake of Sinn Féin's strong showing in last week's election to a Northern Ireland forum.

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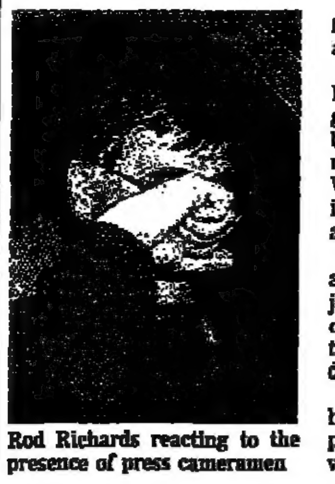
Minister quits after reports of affair



Rod Richards reacting to the presence of press cameramen

By David Wighton at Westminster

Mr John Major's embattled government suffered another blow yesterday with the resignation of Mr Rod Richards, a Welsh office minister, following newspaper reports about an extra-marital affair.

Mr Richards, who has a wife and three children, resigned just hours after the publication of the allegations about a relationship with a 28-year-old divorcee.

The fact that Mr Richards had been leading a local campaign for a return to family values, will make the case particularly embarrassing for the government, which has been beset by allegations of sleaze and hypocrisy.

Mr Richards is the ninth member of the government to resign following allegations about their private lives since the 1992 election. The news was greeted with exasperation by Tory MPs. "We need this like a hole in the head. Just as we were getting all the sleaze behind us, here we go again," said one senior backbencher.

But MPs expressed hope that the damage would be limited by the speed with which Mr Richards resigned.

They pointed to the contrast with the cases of Mr David Mellor and Mr Tim Yeo, two former ministers who had extramarital affairs, who hung on for some days before being forced to resign.

Downing Street announced yesterday afternoon that Mr Richards had offered his resignation and it had been accepted. There was no letter of thanks for his years of service from Mr John Major, as is traditional, which was said to indicate the prime minister's anger. A former Royal Marine, government official and BBC journalist, Mr Richards, 49, was made a junior ministerin 1994.

EU votes to be blocked soon in 'mad cow' battle

By Caroline Southey in Brussels

Britain's relationship with the European Union faces a series of crucial tests this week. British ministers are preparing to block several EU decisions as part of the government's policy of non co-operation, and EU farm ministers are to vote on proposals to lift the export ban on British beef by-products.

EU agriculture ministers meet today and tomorrow to consider lifting the ban on British gelatine, tallow and semen. The vote still hangs in the balance, with few signs that the seven countries which voted against the proposal nearly two weeks ago will change their positions.

One possibility is that Mr Franz Fischler, EU commissioner for agriculture, will removes semen from the list, which would prompt the Netherlands to vote for the proposal. A Dutch official said such a move could lead to Spain, Belgium and Luxembourg switching their votes, which would be enough to ensure the proposal was passed.

Separately British ministers are expected to disrupt EU business over the next three days when they block a range of decisions requiring unanimity. EU officials said member states will scrutinise Britain's policy of non co-operation for any signs that the UK government is prepared to be flexible.

British officials have already indicated that Mr Kenneth Clarke, chancellor of the exchequer, will block at least three proposals at today's meeting of economic and finance ministers, including steps against fraud which Britain has ardently supported in the past.

EU business is also likely to be held up at a meeting of social affairs ministers today. But the biggest test will be at a meeting of justice and home affairs ministers at which all decisions require unanimity. EU officials pointed out that Britain could paralyse the justice and home affairs meeting. "This will be a crucial test. If they stick to the letter of the policy they can screw up the whole meeting. But if they show signs that they can be reasonable, it would be a good sign and would help the issue over the ban," said an EU diplomat.

Details are also likely to emerge of a framework agreement on how the broader embargo against British beef could be lifted. This will be the focus of discussions between Mr Malcolm Rifkind, the British foreign secretary, and senior EU politicians, including Mr Jacques Santer, president of the EU Commission, in Brussels tomorrow.

Tory to be cleared over arms for Iran

By David Wighton at Westminster

Mr Ian Aitken, the former cabinet minister, is set to be cleared of blame in the arms-to-Iran affair in a report by a cross-party committee of the House of Commons. The trade and industry committee is expected to conclude that there is no evidence Mr Aitken knew that naval guns made by Bmarc, where he was a non-executive director, were being shipped to Iran.

The committee dismisses evidence from Mr Gerald James, the former chairman of Bmarc, that Mr Aitken was present at a meeting in November 1988 at which plans were discussed to supply guns to Iran through Singapore.

Mr Aitken insisted that Iran was not mentioned at the meeting, a claim backed up by Mr William McNaught, the company's former managing director. Mr Aitken alleged that Mr James and sections of the media had fabricated a "phoney scandal" which had damaged him politically. Mr Aitken resigned as chief secretary to the Treasury last year saying he could not carry out his responsibilities at the same time as preparing for legal actions against "adversaries in the media".

The committee's report criticises the trade department for issuing licences for the guns and recommends that responsibility for issuing licences move to the Foreign Office and defence ministry.

UK NEWS DIGEST

Mail workers vote for strike

Royal Mail is preparing an improved offer to try to prevent a national postal dispute this summer after yesterday's vote by Britain's postal workers to back industrial action against management's plans to modernise the postal services through changes in working practices. Senior management and officials from the Communication Workers Union are expected to start intensive negotiations next Monday in London with both sides hopeful that a deal can be reached that will satisfy postal workers and improve business efficiency.

In the postal ballot announced yesterday 67,311 voted in favour of their union's call for industrial action (68 per cent) and 31,528 against (32 per cent). There was a 74 per cent turnout. "This result shows our members are at the end of their tether," said Mr Alan Johnson, the union's general secretary. "They do not seek confrontation or the disruption to service it would entail." Mr Richard Dykes, Royal Mail's managing director, said last night he did not believe a strike was inevitable. "A strike would not solve anything," he said. A Royal Mail official said there had to be an end to "1970s-style demarcation lines and old-fashioned working practices".

Robert Taylor, Employment Editor

Anniversary at Heathrow

London Heathrow airport yesterday celebrated 50 years as a passenger airport with a flypast by several military and civilian aircraft including a supersonic Concorde airliner. Virtually nothing remains of the village of Heathrow on the site 30km west of London where one of the world's busiest airports is sited. Passenger services began on May 28 1946, when a British Overseas Airways Corporation (now British Airways) converted Lancaster bomber left for Sydney, Australia.

There were no terminals until 1955: before then passenger facilities were kept in tents. The world's first passenger flight by a jet aircraft was made from Heathrow in 1952, when a De Havilland Comet left for Johannesburg. The airport now handles 54m passengers a year and deals with more international passengers than any other airport.

PA News

Interest rate warning

Power struggles between the Treasury and the Bank of England are undermining interest rate policy and the Bank should be made more independent, a leading policy think-tank says today. An article published for the Institute For Public Policy Research, an influential contributor to Labour party thinking, says the monthly monetary meetings between the chancellor of the exchequer and the governor of the Bank of England are excessively confrontational.

It says this will eventually lead to erratic and unstable swings in interest rates as the two men try to score points off one another rather than setting policy according to economic conditions. Mr Eddie George, the governor, yesterday added to the interest rate debate when he said monetary policy was to be left on hold for the time being – but that he could not rule out a further cut in interest rates.

Mr George said after a conference on international monetary policy in Sydney that the increasingly positive economic outlook for the UK held some risks for inflation in the next couple of years and that the inflation objective of 2.5 per cent or less "might begin to be put at risk" in 1998.

Graham Bowley, Economics Staff

Murdoch paper cuts price

The national newspaper price war takes a new twist today with the decision by Mr Rupert Murdoch to cut the price of The Times from 30p to £0.10 (15c) in Britain on Mondays for the rest of the summer. The move has been triggered in part by static sales of about 650,000 at News International's flagship daily but may have been influenced by an aggressive subscription initiative by rival Daily Telegraph. For years the Telegraph group has been building up databases on its readers and those of other papers.

Raymond Snoddy, London

Biggest soccer event for 30 years fails to excite London

By Patrick Harverson in London

The opening game of Euro 96 may be only a week away, but there is little evidence that London is playing host to the largest sporting event to be held in the capital since the 1966 World Cup. Wembley stadium – where all six of the London games will be played – has been spruced up and Euro 96 banners hang proudly from lampposts in the local borough of Brent.

Yet central London, where many of the fans are likely to be staying and socialising, is a mostly Euro 96-free zone. Westminster council refused to allow banners to be hung from its lampposts because they carried sponsors' names. Now only the City, the financial district which is empty at nights and weekends, will sport the banners during the tournament.

The low profile London is keeping during the tournament is remarkable given the momentous nature of it. In terms of the television audience it will attract, the final stages of the European football championship ranks third behind the World Cup and the Olympics in global popularity.

But beneath the calm, there is much preparation, not least by the Metropolitan Police, for whom Euro 96 represents an unprecedented test of its ability to handle large crowds.

Mr Mike Cobb, press officer at Scotland Yard, says the force has been planning for two years. With an estimated 250,000 non-British fans expected to come through London on their way to games at Wembley and elsewhere, the Met plans to use more than 1,000 officers to keep the peace during the three-week event. The operation will cost the force about £5m ($7.6m).

Everything from helicopters, horses and police dogs to undercover detectives and "spotters" – groups of uniformed officers who follow troublemakers on match days – will be deployed to maintain order. Brent has just installed a closed circuit television system for Wembley High Road to track crowds walking to the stadium.

Of London's 33 councils, Brent is most closely involved. It is spending about £176,000 – of which all but £16,000 has been raised from sponsors – on looking after visitors.

But the council has not spent any money improving the grim surroundings that scar the stadium's hinterland. Government funds for an urban regeneration project have been secured but work on improving the area will not start in time for Euro 96.

Cultural and arts events will cost £100,000, paid for with public and private funds. Contributions include £12,500 from the Department of National Heritage. As in other Euro 96 cities, organisers have complained privately about the government's refusal to provide more money.

The fact that virtually all of London's boroughs are ignoring Euro 96 highlights the problem the city has in lacking a central political authority. Mr David White, co-ordinator for the Euro 96 arts and culture programme, says: "It is the only city that has not got a central body and in bringing things together for Euro 96 that has been a downside."

Mr Tony Banks, Labour MP for an east London district, says the absence of a single authority is an "insuperable problem" and bodes ill for London's chances of ever hosting an Olympic games again. "It's a complete impediment to us getting these big sporting events," he says.

But Euro 96 is still expected to have a positive impact on the capital's economy.

The London Tourist Board expects many of the visitors coming to the UK for Euro 96 to be in London at some point. With the fans expected to spend an average of £500 each London hopes a large portion of the estimated £125m generated by Euro 96 will be spent in the capital.

Yet experience of similar international sporting events suggests that some of London's gains will be offset by losses due to tourists deciding not to visit the city because of fears of overcrowding, overpriced hotels and, possibly, violence.

Leeds United soccer club is on the verge of being sold to the publicly quoted Caspian Group in a £20m ($30.4m) deal that will represent the most direct investment yet in football by City of London institutions.

Caspian, a media group owned by several large blue-chip investors – among them Schroders, Mercury Asset Management, London and Manchester, and Guardian Royal Exchange – is expected to announce this week that it is in negotiations to acquire the club as part of a strategy to build a portfolio of interests in sport.

Mr Chris Akers, the former Swiss Bank corporate financier who is chairman of Caspian, will go to Leeds today to complete the terms of a deal that will see the group pay £10m for the 65 per cent of the club owned by Mr Bill Fotherby, Leeds chairman, and Mr Leslie Silver, his predecessor. It will also take on the FA Premiership club's £10m of debts. Caspian will finance the purchase through a placing of shares with institutions.

THIS WEEK

Rich Argentines live on a knife edge

DATELINE

Buenos Aires: celebrities in Argentina are not always all they appear to be, thanks largely to the cosmetic surgeon's scalpel, writes **David Pilling**

Argentines like to think of themselves as a cut above other Latin Americans. Indeed, many are a cut, a nip and a tuck different. Plastic surgery is endemic in Argentina, a slice of everyday life. An estimated 1m people, one in 30, have put their faith in the arts of the scalpel and the suction tube.

The list of surgery junkies is virtually a national *Who's Who*. They include past, present and possible future presidents, congressmen, actors, models, chat-show hosts, football stars and even Catholic clergymen, presumably disgruntled with the handiwork of the Master Surgeon Himself.

Argentina is a country where looks matter. The blend of mainly Italian and Spanish immigrants has created a people of striking beauty. Those who want to really dazzle, or to preserve the crispness of their salad days, often feel obliged to give nature a helpful nudge.

The best-known surgeons – who have enlarged the breasts, firmed the buttocks and removed the sagging flesh of the nation's most famous personalities – are household names. Their patients, though occasionally discreet, more often flaunt their aesthetic alterations, displaying their surgeons' achievements in the pages of glossy magazines, or on the glitzy sets of chat shows.

Humourist Sylvina Walgar, in her book *Pizza and Champagne*, a deliciously cruel account of Carlos Menem's razzamatazz presidency, writes of Argentina's obsession with surgery: "I have been operated on, therefore I am." For many, a visit to a surgeon is a status symbol, a route to fame and power and an elixir of youth rolled into one – as irresistible as cream buns.

Carlos Menem's transformation from mutton-chopped nationalist as governor of La Rioja province to suave, Italian-suited neo-liberal as Argentina's president has been more dramatic than any silicone-based mutation. Nevertheless, Menem, no stranger to the surgeon's knife, provides one of the most celebrated stories in the annals of Argentine plastic surgery.

When the president appeared one day with his face puffed up like a soufflé, his aides hurriedly invented the story that he had been bitten by a wasp. In his recent book *The Masks of Argentina*, Luis Majul disputes the accepted version that the swelling was actually caused by a collagen injection in the presidential cheeks. Majul says the "wasp-sting" was not the result of wrinkle-removing collagen, but rather a nasty reaction to a hair transplant.

Whatever the real cause, the incident has spawned a series of jokes and provided the title for a satirical magazine, called simply *The Wasp*. It even led to the advertising slogan of a hotel in the exclusive Uruguayan resort of Punta del Este, which publicised its refurbishment by saying: "We too have been bitten by a wasp."

The mirth provided by the president's swollen cheeks was nothing compared to that derived from tales of José Luis Manzano's swollen buttocks. Manzano, former minister of the interior, was hounded in 1992 by press reports saying his derriere had been reshaped with silicone implants. That was a common treatment in Argentina until the recent case of a transvestite, injected with industrial silicone, whose bottom literally exploded.

Manzano, whose political and ethical conduct was being scrutinised by the press, reacted wildly to the buttock-padding allegations. One day, reporters swear, he thundered out of his office in the presidential palace, and lowered his trousers to disprove journalistic claims. He was sacked within a month.

For most, surgery is no cause of shame. Argentina's best-loved personality, sex symbol and chat-show hostess Susana Giménez, is stiletto-clomping proof of surgical wizardry. Bottle blonde, brash and 50, Susana gets progressively younger with each new season of her show, *Hola Susana*.

In the right light and from a distance (quite a long distance) Susana looks more like someone's daughter than their mother, but the Argentine diva is now a granny. Confronting this ghastly fact in an interview with *Gente* (*People*) magazine, Susana put a brave face on events, describing herself as a "pioneer grandmother – with plastic boobs and jeans".

Not everyone wants a more glamorous look. Julieta Ortega, the daughter of a famous politician, actually reduced the size of her breasts. Being a busty sex symbol, she said, was getting in the way of her acting career. But 90 per cent of breasts go in the other direction, with teenage girls sometimes receiving a new pair for Christmas from loving parents.

Another famed devotee of plastic possibilities is Maria Julia Alsogaray, the once-staid environment secretary. Now the proud owner of a remoulded face, she is already said to be planning her next operation, though on what she has not yet decided. Maria Julia, who was last year accused of twiddling her thumbs as fires devastated swathes of ancient Patagonian forests, won her 5 minutes of fame when she appeared, practically naked, on the cover of *Noticias* magazine. The 50-year-old environment secretary was wearing nothing but a fur coat.

PEOPLE

Ellis and Prescott to untie the giant

Unwinding complexity is the guiding strategy for Australia's multinational, writes **Nikki Tait**

Jerry Ellis, left, and John Prescott: observers see pluses and minuses

"If you stand back from it all," says John Prescott, chief executive of BHP, Australia's biggest company and its one undisputed multinational, "what's modern management all about?" He barely pauses before answering. "It's about unwinding complexity."

BHP's shareholders might be surprised to hear that, for all appearances suggest that the "Big Australian" has multiplied in complexity during the past decade. Ten years ago, it had three main areas of operation – oil, steel and a narrowly focused minerals division – mainly based in Australia.

Today it is one of the world's most diverse natural resources companies, with projects ranging from Canadian diamond mining to the Liverpool Bay oil and gas operation in the Irish Sea. By mid-1995, more than one-third of its A$30bn (£15.8bn) assets lay outside Australia. Since then, for US$2.4bn, it has added on the Magma Copper business in the US.

Diversification on this scale has not always meant a smooth ride. BHP's environmental record has been under international attack, notably from Ralph Nader, the US consumer activist. And in Australia, safety standards have been in the spotlight, partly as a result of the underground explosion at the Moura coal mine in 1994, when 11 miners died, and then following several incidents at its Newcastle steelworks during the past year.

Even on the financial front, there have been bumps. Shareholders could hardly complain about long-term share price performance. During the past decade BHP has outperformed Australia's all-share index by 60 per cent, and its all-mining index by slightly more.

But BHP startled analysts recently when it reported a 30 per cent drop in third-quarter profits to A$223m, compared with market expectations of about A$300m. BHP-watchers have now abandoned hopes that the resources group will better last time's A$1.6bn profit (before abnormals) in the year to end-May 1996. Most estimates settle on A$1.4bn to A$1.5bn.

It is not surprising, then, that management matters should rest so heavily on Prescott's mind, although when asked whether recent difficulties were indicative of growth pains, he parried the question carefully.

From an operational standpoint, Prescott acknowledges, BHP has been in consolidation mode recently: "What BHP was doing before the third-quarter result was trying to ensure that it could effectively bed down and commission . . . a whole raft of new projects that are gradually coming on stream".

If all goes to plan, those projects – big, diverse and running through to 2000 and beyond – could form the basis of the largest expansion phase in BHP's history. To a considerable extent, they represent new capacity, although there is also an element of production replacement. But gearing up for the commissioning stage has meant that costs have been lumped unevenly and this, claims Prescott, partly explains the third-quarter downturn. On top of which, he says, the Australian economy slowed, creating cost problems for the steel division.

Pressed on other management issues, such as safety standards, Prescott, 55, who joined BHP as an industrial relations trainee 37 years ago, admits there are no easy answers. But he refutes the suggestion that there is a link between the pace at which BHP is now required to run just to maintain momentum, and events like Moura.

"If you analyse those incidents, they haven't occurred in new operations. They haven't occurred in those areas where you'd think we might be stretched. They've occurred in our more established operations," he says.

Still, BHP's venture into uncharted areas in terms of project development is made no easier by the fact that it is also bedding down the Magma acquisition. The merger has made BHP the world's second largest copper producer after Chile's Codelco. Is Magma living up to expectations? Prescott says things have gone well, though "in terms of commercial results it's going to take a while".

He points out that some fairly comprehensive internal changes, announced late last year, went virtually unnoticed. In some areas, BHP actually went against modern management fashion, reintroducing a managerial layer. Partly, the idea was to reduce the reporting load on certain individuals.

"Essentially," he says, "we put in more management capacity. We also appointed new general managers in nine countries. The significance is in the detail, but we pushed a lot of authority down [the line]".

The market, though, will always focus on the people at the top and it has had plenty to chew on during the last week. Last Monday, BHP announced that it was appointing Jerry Ellis, the 57-year-old executive in charge of its minerals division, to replace Brian Loton, its non-executive chairman. Prescott, with warm board endorsement, would remain in his current position.

This appeared an unusual move, effectively propelling a more junior man into the chairman's seat. It also contrasted with events in 1991, when, rather more neatly, Prescott was appointed chief executive after working his way up through the steel and transport operations when Loton, the previous chief executive, moved up to head the board.

Analysts attribute Ellis's promotion partly to the company's age limits on senior positions – Loton is obliged to retire by May next year – and to the fact that Prescott is a bit younger than Ellis. Most observers see pluses and minuses. BHP's new chairman will have had extensive in-house experience, notably of the minerals division, which has become BHP's biggest earner. Also, Ellis's more polished style may be well suited to the chairman's role.

The minus is that the board's internal choices seem to have been rather limited: "You always want two candidates for each job," says one pundit. Still, while BHP grapples with its own management challenges, Prescott is willing to spare a thought for others similarly engaged, including Australia's new conservative federal government. He is convinced Australia's economy could grow faster. He would even aim higher than the 4 per cent growth rate suggested as an upper limit by the Reserve Bank governor.

"We all understand what the contraints are," he says. "It's the balance of payments, the budget deficit, savings, interest rates. What I've not been comfortable about – ever – is that we just accept that we can't deal with some of these issues faster.

"It simply means one has to tackle the specifics in a more focused way. And I hope that's what the government is doing. It seems to be what they're doing. It's what they said they were going to do. I hope we all benefit."

NAMES IN THE NEWS

Bronfman asks shareholders for a little more time

Edgar Bronfman Jr has asked for a little more time to prove he is taking the family business in the right direction, writes **Bernard Simon** in **Toronto**.

The 40-year-old heir to the Seagram drinks fortune has spent the past year putting his stamp on MCA, the Los Angeles-based film, music and theme-park conglomerate in which Seagram bought an 80 per cent stake last spring for US$5.7bn.

But Bronfman had a sober message for shareholders at last week's annual meeting. "MCA, in terms of pace of growth, will probably take another two or three years before it accelerates as much as we would like it to," he said. In turn, Seagram's beverage business has yet to feel the full benefits of a re-engineering project that has spanned everything from financial management to the optimal number of orange-juice warehouses. Seagram reported a 61 per cent drop in first-quarter income from continuing operations.

However, Bronfman is determined to confound sceptics who have questioned his ability to stay ahead of the pack.

The jury is still out on MCA, but Bronfman is given credit these days for being a capable manager and a fast learner. For instance, he has freshened MCA's austere image by installing a younger management team led by Frank Biondi, former chief executive of Viacom, the US media group, and Ron Meyer, formerly a top Hollywood agent

On the music side, MCA paid $200m earlier this year for half of Interscope Records, best known for its gangsta-rappers. Bronfman has also given the go-ahead for expansion of MCA's lucrative theme-park business, including ambitious joint ventures in Florida and Osaka, Japan.

He told Seagram's annual meeting that the best opportunities in the film business these days were outside the US – in Europe, Asia and Latin America. Critics remain concerned, however, that some of the MCA newcomers' inexperience in media and entertainment could prove costly, especially on the film and TV side.

Chrysalis chief mixes business and passion

One night last year Chris Wright, chairman of Britain's Chrysalis media group, was watching his basketball team, the Sheffield Sharks, play the London Towers at Wembley, writes **Patrick Harverson** in **London**.

He was standing at the back of the court chatting with a bystander, but it was the game which kept him nervously transfixed.

For the 51-year-old millionaire, owning a sports team is not an idle hobby but a passion. He wants to expand his empire by acquiring Queens Park Rangers, a London professional soccer club, and Wasps rugby union club. Although Wright's £11m plan unveiled last week to merge the two clubs and create a single publicly quoted sports company was well received at Wasps and QPR, there are obstacles. In particular, his plan for Wasps to share QPR's Loftus Road stadium – a key element in his integrated sports club strategy – may fail to win the approval of the sports authorities.

However, as founder of Chrysalis Records, one of the most famous music labels in rock, and responsible for building a multimedia empire encompassing television, radio, films and rock music, Wright's acumen should be an asset to the sporting world.

Certainly he has enough money to make his plan work: his stake in Chrysalis is worth about £64m. But while Wright is a genuine sports fan, he will not let sentimentality get in the way of making money. He said of the heretical idea that a rugby team should play at a football stadium: "It's all about bums on seats."

Stephanie Flanders · Economics Notebook

Europe's many budgetary hurdles

Investors are brave indeed to take France and Germany at their word on Emu

European financial markets have been quiet over the past few months – too quiet, one is tempted to say. With every passing week, bond investors have become more and more willing to take the German and French governments at their word regarding qualification for European monetary union. That the markets should be so happy to suspend their usual disbelief is noteworthy in itself. Whether it is warranted is another matter.

There has certainly been no general upsurge in the markets' faith in official promises. In the US, bond yields have lurched up with every hint of faster growth, despite the Federal Reserve's repeated promise that this will not be allowed to feed through to higher prices. Investors seem, rather, to be making an exception in the case of the French and the Germans because they judge both to have invested too much political capital in Emu to let it fail at the last hurdles, however daunting these may appear.

The same could not be said a year ago, when French long-term bonds stood roughly one-third of a percentage point above German ones. Prime Minister Alain Juppé's travails with public sector workers last autumn saw the gap widen to more than one percentage point at the end of October last year. Back then, it was difficult to believe that he would be able to deliver fast enough economic growth – and large enough cuts in public spending – to come close to meeting the Maastricht convergence criteria on budget deficits in 1997.

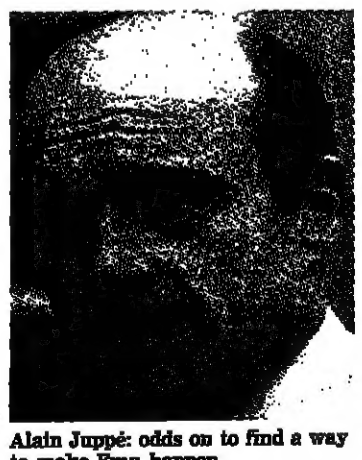
These days, however, investors seem to be finding it hard to believe anything else. The differential between German and French bond yields has shrunk to nought, with French long-term interest rates even occasionally dipping below their German equivalents.

This kind of market confidence usually proves to be short-lived. Take the early summer of 1993, when some even talked of the Franc replacing the D-mark as the "anchor" currency of Europe. By August, the constraints of the European exchange rate mechanism had to be drastically loosened to contain the plummeting franc, and the premium on French bonds was back with a vengeance. By any reckoning, the risk that the French and the Germans will not be able to stick to their exchange rate promises is smaller today than it was three years ago. One wonders, however, whether it is zero.

Recent columns in this space by Peter Norman have outlined the challenges the German government faces in seeking to qualify for Emu. These could yet prove a larger stumbling block to Emu than reducing the size of the French budget deficit. But the obstacles in the way of the latter are sizeable all the same.

Last month France's prime minister announced that the government was on course to achieve its 1996 budget deficit target of 4 per cent of GDP, down from roughly 5 per cent in 1995. He claimed that a freeze on nominal central government spending at this year's level of FFr1,552bn (£199.22bn) – which would imply deep cuts in some areas, given automatic rises in debt service and other costs – would be enough to reduce borrowing by a further 1 per cent of GDP next year, in time to qualify for Emu.

While the markets took this in their stride, other observers may have been less impressed – not least, the officials at the OECD who a few weeks earlier had been in deep negotiations with the French over the organisation's revised medium-term economic forecasts, due to be released later this month.



Alain Juppé: odds on to find a way to make Emu happen

An internal French finance ministry memo – obtained by Richard Medley, a prominent US hedge fund adviser, and independently authenticated by the Financial Times – shows that the OECD initially planned to revise upwards its deficit forecasts for France, to 4.7 per cent of GDP in 1996 and 4.2 per cent in 1997. These compare with its December forecast of a deficit of 3.9 per cent of GDP this year, falling to 3 per cent next year.

The memo details French finance ministry officials' attempts to persuade the OECD to be more optimistic, a common enough event in the history of OECD forecasts. But the judgments involved were scarcely routine, for the implication of the initial forecast was that, even if Juppé succeeded in holding central government spending unchanged – a big if, given the likely political opposition to the implied cuts – the deficit next year would still come in a good half-to-three-quarters of a percentage point over target.

By all accounts the French managed to persuade the OECD to tone down its "baseline" deficit forecast for 1997 somewhat. But it is worth analysing the reasons for the OECD's scepticism.

The first relates to the government's underlying revenue forecasts. As a result of last summer's tax increases, the voted budget for 1996 sees net tax revenues rising by 7.6 per cent this year. Yet slow growth has already put this estimate in doubt. Revenues during the first three months of 1996 were only 5.6 per cent higher than at the same time last year.

The government only expects revenues to grow by around 3.2 per cent next year, but meeting even this target will depend heavily on economic growth. In recent years tax revenues have persistently risen only about two-thirds as fast as nominal GDP. This means that the latter would have to grow by 4.8 per cent next year to keep revenue growth on target.

Assuming roughly 2 per cent inflation, this conforms with the government's forecast for 2.8 per cent real GDP growth in 1997, following growth of 1.3 per cent in 1996. Yet, to judge by the memo, the OECD economists did not share this optimism, forecasting only 1 per cent growth this year, followed by 2.4 per cent in 1997.

Last Friday's encouraging figures for growth in the first quarter might mean that the OECD's earlier forecasts are too downbeat. Quarterly GDP grew by 1.4 per cent in the first three months of the year, compared to a 0.4 per cent decline in the final quarter of 1995. Though much of the rise can be attributed to the one-off effects of the December strikes and the cold weather, the government's forecast is beginning to look more plausible.

However, the same cannot be said of its promise to eliminate last year's FFr60bn deficit on the state's social security funds during 1996 *and 1997. Most private economists* are predicting a deficit of at least FFr35bn-FFr40bn this year, or nearly half of a per cent of GDP. Given his other predictions, Juppé's forecast of a general budget deficit of 4 per cent of GDP in 1996 implies that the government is not expecting the social deficit to be much below FFr30bn-FFr35bn.

By contrast, the 1997 forecast implies that this shortfall will magically evaporate. But Juppé has yet to explain exactly how this will occur. Without further action on this front, the overall deficit will still be at least 3.5 per cent of GDP next year even if all the prime minister's other wishes come true.

Investors may well believe that half a percentage point of GDP is small enough to be fudged, and finance ministry officials in both Germany and France are clearly wracking their brains for ways to do precisely that. Maastricht criteria or no Maastricht criteria, the odds are still that the two governments will find a way to make Emu happen. Yet, with so many hurdles still to overcome, investors are brave indeed to consider it a sure thing.

MANAGEMENT

Wise tending in the jobs garden

Linda Bilmes and **Konrad Wetzker** look at ways that companies have tried to prevent redundancies

The issue of unemployment lies firmly at the top of Europe's political agenda. Thirty million people are jobless. Unemployment remains stubbornly high in France (12 per cent), Germany (10.3 per cent) Spain (15 per cent) and Italy (12 per cent); indeed, one in 10 Europeans is actively job-hunting.

Most disturbingly, "base" unemployment – that part of unemployment which fails to disappear with economic recovery – has quadrupled from 5m to 20m during the past two decades. Even though Britain's unemployment rate, at 7.8 per cent, is below the European average, nearly half have been out of work for more than a year. In Germany, Britain, France and across the Continent, unemployment is cited in opinion polls as voters' highest concern – with up to 55 per cent calling it the "most important issue facing them personally".

Even in the US where unemployment is below 6 per cent, voter anxiety is at its highest level since the Great Depression. Thirty per cent of Americans say they worry "a great deal" about losing their jobs – a prospect made doubly frightening in the absence of Europe's extensive social safety net. US companies have shed millions of jobs in the past decade in an effort to boost productivity and profits. While America is better than Europe at creating new jobs, only one-third of those made redundant find a new position with equal or higher pay.

National governments can no longer recreate the secure, traditional nine-to-five jobs which predominated in the post-war era. Many of the standard economic remedies – monetary and fiscal policies, trade agreements, job-creation schemes – are less effective in an era of intense global competition. The combination of information technology, deregulation, capital mobility and the growing participation of the emerging economies in world trade is producing change on the scale of the industrial revolution.

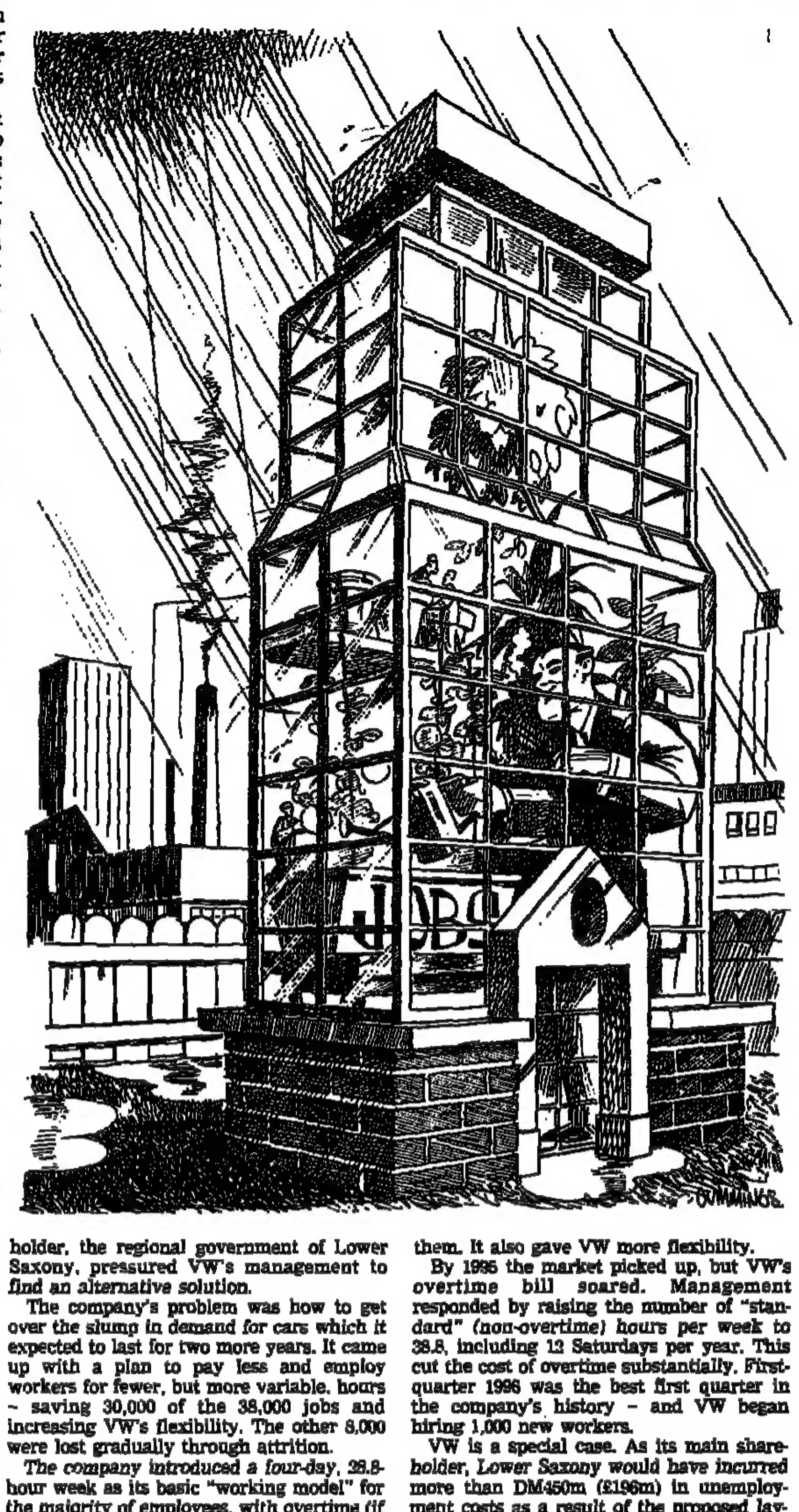
One of the most visible results is rising unemployment in the industrial countries, with an inexorable shift towards part-time and lower-paid jobs among those who lack the new skills.

"Corporate downsizing" is often blamed as one of the villains of the piece. Companies such as AT&T attract a storm of publicity when they lay off thousands of employees – almost regardless of the circumstances which led management to take those decisions. Paradoxically, it is also the private sector which creates nearly all jobs. But little attention is paid to those companies which are deliberately saving jobs or pro-actively fostering employment.

Over the past three years, the Boston Consulting Group has been studying unemployment from the perspective of business, as well as government. BCG has identified a group of successful international companies which have consciously pursued pro-employment policies, while continuing to increase shareholder value.

Two examples of companies adopting measures to boost jobs in the short-term are car companies – Volkswagen and BMW. One of the biggest employers worldwide, the car industry has made vast job cuts in the face of new technology and global competition. VW, however, has been able to improve performance while saving 30,000 jobs. And BMW chose to hire some 3,000 new employees as part of its productivity drive – rather than investing in new equipment.

The VW story is a tale of Germany as well as cars. In 1993, after four years of declining sales and mounting losses, VW proposed to cut its 108,000 workforce by 38,000. But the company's leading shareholder, the regional government of Lower Saxony, pressured VW's management to find an alternative solution.



The company's problem was how to get over the slump in demand for cars which it expected to last for two more years. It came up with a plan to pay less and employ workers for fewer, but more variable, hours – saving 30,000 of the 38,000 jobs and increasing VW's flexibility. The other 8,000 were lost gradually through attrition.

The company introduced a four-day, 28.8-hour week as its basic "working model" for the majority of employees, with overtime (if worked) paid at one-and-a-half times the base rate. This cut the average worker's pay by 10-15 per cent. Some younger workers gradually ramped up their hours and wages, while those close to retirement gradually decreased their hours. The cost of keeping the workers for two more years was cut to a level comparable with firing them. It also gave VW more flexibility.

By 1995 the market picked up, but VW's overtime bill soared. Management responded by raising the number of "standard" (non-overtime) hours per week to 38.8, including 12 Saturdays per year. This cut the cost of overtime substantially. First-quarter 1996 was the best first quarter in the company's history – and VW began hiring 1,000 new workers.

VW is a special case. As its main shareholder, Lower Saxony would have incurred more than DM450m (£196m) in unemployment costs as a result of the proposed lay-offs and would have lost a further DM1bn in tax revenues. Few shareholders have such a direct stake in maintaining jobs. Nevertheless, because it had such a strong incentive to do so, VW found a better plan – which also left the company well-positioned to cope with the current upturn in demand.

BMW has built its success in part on flexible working models for its 58,000 employees. "We use over 200 different working models for flexible working time," says Bernd Pischetsrieder, chief executive. This philosophy was put to the test in 1990 when BMW decided to seek a dramatic one-third boost in productivity at its new plant in Regensburg, Bavaria. The company faced a choice. It could introduce a second shift, which would mean increasing the workforce from 7,200 to almost 10,000 but requiring most of them to work unpopular hours.

Alternatively, the company could invest in additional equipment and hire only 1,000 extra workers working a single shift. Assuming depreciation over the standard six years, the annual cost of the two options was comparable.

BMW opted for a second shift in order to improve its production flexibility. It sugar-coated the pill by reducing individual working hours even though factory hours more than doubled, from 40 to 99 per week. Productivity jumped by almost 30 per cent. BMW subsequently introduced a similar two-shift model for its 7,000 workers in Munich, adding hundreds of new jobs.

BMW has been a pioneer in Germany, implementing a degree of labour flexibility that most companies have thus far resisted. The country has 1.2m workers who could be placed on a Regensburg-type shift system, creating more than 500,000 new jobs.

In America, this kind of solution might seem far-fetched. Nonetheless, Hewlett-Packard, America's third biggest computer company, has deliberately adopted flexible wage and working patterns over four decades in order to avoid layoffs among its 99,000 employees.

HP has a strict "no redundancies" policy. To deliver on this pledge, through the ups and downs in profitability, the firm has used all the traditional solutions, such as redeployment of personnel within the firm, hiring from within, voluntary severance, and retraining programmes.

But when necessary, HP adopts "flexible measures". In 1970, the company's US employees had every other Friday off without pay. In 1985, for three months, HP closed most US manufacturing and administrative facilities for one to two days per month, requiring 60,000 workers to take unpaid leave, and a forced pay cut of 9 per cent. Individual facilities often close for holiday periods to reduce overtime and running costs. During a recent downturn, the company encouraged employees in the US to take up to six months unpaid leave whilst retaining their benefits and job guarantee. And at its plant in Grenoble, France, HP used a similar approach to VW, asking workers to reduce hours and wages in order to save jobs.

HP believes that its pro-employee philosophy builds loyalty to the company, and makes employees willing to work harder during product launch periods.

Rank Xerox has used flexible working arrangements as a way to minimise job cuts. Since 1989 Rank Xerox has permitted flexible days and hours, a "career break" policy, extended unpaid leave for maternity, paternity and adoption, part or full-time leave for education and training and job shares. Although the company has made lay-offs, they have been a last resort.

To save costs and thereby avoid further redundancies, Rank Xerox is currently spending £6.4m to equip its salesforce with portable workstations. This will save on the one-third of personnel costs which are tied up in office space and equipment. Salespeople will have access to an Oracle database using their laptops, but they can work from home, their cars, or customer sites. The main short-term purpose of this move, according to Rank Xerox, is to save more than 600 jobs. Over the long-term, the company expects the investment to boost productivity substantially.

Of course, there are situations in which jobs simply cannot and should not be saved. But even here, companies can do a great deal to ease the transition of former employees into new jobs. One of the best known examples is Pilkington Glass. Competition, technology and productivity improvements led to massive restructurings; employment fell from 18,000 in 1970 to just 4,000 by last year. On its own initiative, Pilkington set up a trust which sponsored job creation schemes offering financing, advice and office space. It assisted in nearly 1,900 start-ups, which between them created 15,800 jobs.

In Germany, such initiative is rare – but it does exist. In 1992, when AEG-Olympia ceased production at its 2,000-person typewriter plant in Wilhelmshaven, the company paid to convert the former site into a technology park. Technology Centrum Nordwest (TCN) opened in January 1993, initially providing office space for 14 start-up companies which employed 900 former AEG workers. Those who joined the new ventures received two-thirds of their severance pay, with the remainder being invested in their business.

The TCN is now home to 31 companies which employ more than 1,500 workers in light industry and services. Holger Ansman, general manager, attributes its success to the speed and flexibility with which it can renovate office space and he expects to generate more jobs this year. "When there are 2,000 workers here then I will feel that I have done my job," he says.

Apple Computer Europe also tried to promote new jobs when it was forced to lay off staff. In 1991, Apple decided to integrate marketing and management of its European operations into its US divisions. This led Apple to halve its headcount in Europe – both at its headquarters in France and within each country organisation. Apple provided its former employees with far more options than were legally required.

In France, for example, the 300 ex-Apple workers were each offered a FFr50,000 (£6,400) tax-free grant to set up their own companies – doubled to FFr100,000 if the new company helped sell or support Apple machines. Employees could alternatively choose to receive FFr40,000 in training or outplacement services. These options were in addition to generous severance pay.

About 15 per cent of former Apple France employees chose to set up their own companies, most of which are thriving. It is estimated that the new companies now employ close to 300 people. "Apple did a good job. It was a generous plan, and it was innovative," says Zepur Blot, treasurer of the Apple Employees Council, who helped negotiate the package for the workers.

Many other companies have quietly made a substantial contribution to easing the unemployment problem. The measures described here cannot solve the structural problems which underlie Europe's job crisis. But they keep hundreds of thousands of workers off the unemployment register and help many make the transition to new jobs.

An article on companies that have created new jobs will appear next week.

The authors are managers at the Boston Consulting Group.

DEALING WITH DISABILITY

Dyslexia

Ann Rich, who had spent several years working in the lending department of a small branch of Midland Bank, found that her difficulties with spelling were highlighted when she moved to a new position.

The job involved responding to customers' letters – a task in which she struggled. "I had had an excellent secretary in my former job, who corrected my spelling mistakes, but in my new post I was in the front line and I was making errors," says Rich.

The bank's equal opportunities department suggested she undergo an assessment. It was found that she suffered from dyslexia – a disability which affects the way in which the brain processes information. As a result individuals can experience a range of difficulties, for example in reading, writing, sequencing ability and organisational skills.

Between 4 and 10 per cent of the UK population have some degree of dyslexia and around 40 per cent of these to the extent that they would benefit from some kind of assistance.

Many people with dyslexia fear discrimination should they reveal their disability to an employer – although those substantially affected by dyslexia will be now be covered by the Disability Discrimination Act which makes it unlawful for an employer to treat a person less favourably because of their disability.

Liz Brooks, director of the Dyslexia Institute, which assesses and teaches dyslexics, says many employers do not understand dyslexia and may be unsympathetic. A recent survey by the institute showed that only 20 per cent of her students had their fees paid by their employers. "Unfortunately, it's an additional cost on a business," she says.

Rich was fortunate in that her bank, through its equal opportunities programme, funded a tutor. After two years Rich's skills have improved considerably – so much so that she recently passed part of the Chartered Institute of Bankers' Banking Certificate.

Midland Bank is keen to encourage an enlightened and open approach towards disabilities such as dyslexia. Anne Watts, the bank's equal opportunities director and vice-president of the British Dyslexia Association, says: "Dyslexia is very much a hidden disability. But if employers take a positive attitude to disability generally this should encourage people to seek help and ultimately improve their work performance, which benefits the employer as well as the individual."

Dyslexia is still not widely recognised. Diane Bartlett, who coached Rich, tells of one of her clients who was written off as lazy and disorganised. He was sent for an assessment by his employer and his disability was identified. "His work situation then began to change as his problems began to be understood," says Bartlett.

She admits that a few of her clients have suffered after admitting their dyslexia to their employers. She knows one man who was demoted after the disability was diagnosed.

She advises clients to think carefully about how their employers might react to being told their employee has dyslexia. "It is important that the employer is made to understand what dyslexia is. It has nothing to do with intelligence and it can be helped."

Lisa Wood

Prime minister to do job share?

Lucy Kellaway

How many jobs can you think of that do not lend themselves to job sharing, part-time or flexible working? Every company in Britain should be anxiously asking itself this question following last week's news that publishers IPC paid £35,000 in compensation to a female employee who was refused a job share after her second baby was born. The onus will now be on the company to come up with a good reason for refusing to let any woman (unfairly, this does not seem to apply to men) work anything other than full time.

But when I asked the question to a (male) colleague he insisted that nearly all senior managerial jobs could only be performed by dedicated full-time employees. Any job that involved planning and meetings, he said, needed the continuity of a single person. In his view, part-time and flexible working was for wimps and juniors.

I told him that he was living in the dark ages, and that there was not a single job which could not be redesigned to accommodate flexible working. There was no reason why the chief executive's job at ICI should not be split in two, so long as the two incumbents got on together. Neither, I argued, was there any reason why the prime minister himself should not do a job share. The only position that did not lend itself to flexible working was that of a dictator. You can't see Saddam Hussein taking kindly to that sort of thing.

Possibly I was overstating my case. However, the main point stands that most senior management jobs could be performed by two people. Now that companies are meant to be run as teams with shared decision making, it must be possible to enlarge those teams to contain part-time workers.

It may be claimed that you cannot split a dynamic leader in two, but most companies have already been successful in spliting up the roles of chairman and chief executive, and so should be able to subdivide the jobs further still.

That at least is the theory. Yet every time I get a glimpse of real corporate life, I am reminded that the popular vision of empowerment and teams is a fiction. Like it or not, power still sits firmly at the top. The latest evidence that the autocrat is alive and well came in last week's Mori survey commissioned by the Financial Times and the Economist.

This showed that instead of spending their energies coaching and mentoring their teams, the CEOs of Europe's biggest companies spend their time fussing over the company's business travel bill, and worrying about which new telephones to buy.

If Mori had asked the same people whether their company operated as a series of empowered teams, I bet every single one of them would have said "Yes, absolutely". But why is it that teams somehow seem to peter out at the top of companies? Could it be anything to do with the fact that everyone else in the supposed team has their eyes on the top job, and is busily pursuing their own agendas? Empowering the workers is one thing; but persuading the chief executive to part with power is more difficult.

Communism is dead; everyone is a capitalist now. We all believe in the market and we all know that competition is the engine that keeps the market running.

So I'm not sure what to make of a little card sent out by CoCensys, a Californian biotechnology company, to update its mailing list. It asks you to put yourself into one of various categories which include "competitor/comrade". Comrade? Are we to assume that in California competition is becoming a dirty word; that soon businesses will start claiming sincere fellow feeling for their competitors?

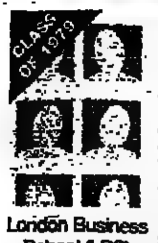
I would dismiss the matter were it not for the latest management book being hyped in the US. Called Co-opetition, and written by a pair of business school professors from Harvard and Yale, the book claims to be "a revolutionary mindset that combines competition and co-operation". And what does that involve precisely, you may ask? In the yards of testimonial sent out by the publishers (Tom Peters among others praising the volume to the skies) the book is described as "holistic, relational, contextual, and nourishing with a winning outcome for those involved". I'm looking forward to reading it.

A word of advice to David Quarmby, the new head of the British Tourist Authority: please don't refer to Britain as a "product". I know it is your unhappy job to try to sell our land to coachloads of foreigners, but this ugly jargon is not going to help the cause. You are not at J. Sainsbury any more, and Britain is not a can of baked beans. Products are manufactured; moreover, they are something that we in Britain are no longer very good at making. So let's not confuse the issue: Britain is a *country*.

BUSINESS EDUCATION

Alumni from the London Business School class of 1979 speak to **Della Bradshaw**

Antiques and academia



London Business School (LBS)

When Wong Kan Seng arrived in London to study in September 1977, one of the first sights that greeted him was people queueing in the streets to buy bread. The bakers were about to go on strike. "It was quite a cultural shock," recalls Wong. "In Singapore in 1977 we had race riots but I thought I'd left all that behind. I thought, how could a country like this continue to behave in this way?"

Wong, a civil servant in Singapore with a degree in English literature, had won a government scholarship to study at the London Business School. Today he is Singapore's minister for home affairs.

Wong was one of 69 students on the LBS MSc degree, which was soon to be renamed the MBA. Only 16 were from outside the UK and only six were women.

The class which graduated in 1979, the year Margaret Thatcher was elected prime minister, were probably the last of an era, according to Janette Rutterford, now professor of financial management at the Open University Business School. A student herself on the course, she recalls her peers as an eclectic bunch, very different from the image of the MBA students of the 1980s – monetarist followers of the Thatcher creed.

David Norburn, course director at the time (now director of the management school at Imperial College London), concurs. "You didn't go to LBS at that time unless you were slightly odd – in the nicest possible way."

As the students graduated in the summer of 1979 Margaret Thatcher had already moved into Downing Street, heralding a sea-change in British political life. 1979 was also the year of the Islamic revolution in Iran and the declaration of independence by Zimbabwe. Ridley Scott's film Alien was pulling the crowds at the box office, punk rocker Sid Vicious died of a heroin overdose and Sony launched the Walkman personal stereo.

John Lambden, Janette Rutterford, Wong Kan Seng and Timothy How have followed very different paths since they studied together at the London Business School in the 1970s

Many of the students went on to take advantage of the entrepreneurial spirit created under Thatcherism. William Gordon was a mechanical engineer before joining LBS. Like many MBA students he developed an interest in consultancy during the course and today he is vice-president of Gemini Consulting.

For Gordon, money was the deciding factor. As he came to the end of his course he was offered a job in manufacturing in the UK which paid £8,000 a year or a job in consulting in the US which paid $30,000 (£20,000).

Consultancy and banking were the routes taken by Julian Day when he graduated. A former management trainee in Smiths Industries with an Oxford degree in classical Japanese literature, Day worked for McKinsey and Chase Manhattan Bank, as well as for his own consultancy, before landing his present job as chief financial officer at Safeway in San Francisco.

And Timothy How, who was involved in making fire-fighting equipment for Dunlop before he travelled south for the LBS course, also fled from manufacturing on graduation. He opted for marketing, with Polaroid and frozen food specialist Bejam, and today is managing director of Majestic Wine Warehouses, which has 58 retail warehouses in the UK.

For others it was the UK recession of the 1990s, not the boom years of the 1980s, which have left their mark. At St Ives, in Cambridgeshire, John Lambden runs his own business, Sporting Antiques. He recalls the bad times of three years ago with real horror. In the event, his experience at LBS, he says, "was the difference between survival and non-survival. I wouldn't have stood a prayer without it."

The things he learnt on the LBS course have proven as relevant in government as in commerce, Wong believes. "The course taught us to look at the total business environment of a company. That is not unlike what we do in government – we have to look at the total environment."

For Ramesh Vangal, who went to LBS as an engineering graduate from India with no work experience, the incisive lesson he took away from the course was that business is about simplicity. "It's all about making money."

Vangal has been president of PepsiCo Foods International in Singapore since 1994, with geographical responsibility for the company's business from Auckland to Cairo. The appointment follows a series of high-ranking jobs with the food company and previously with Procter & Gamble, the company with which he got his first job on leaving LBS.

Vangal decided to go to LBS rather than one of the American schools because, at that time, it was a much smaller. "And it was a terrific deal. The tuition fees were just £900," he recalls. For many of the British students, on government research council grants, times were rarely financially hard on the two-year course. "I really don't remember any great hardships," says How.

While many of the students look back at the course with affection – "It was the best thing I ever did", enthuses Gordon – some found the first few months particularly hard. Wong, for example, had to leave his wife and small children in Singapore for the first term and was particularly miserable. Lambden says he hated the first two terms. "I nearly died. The statistics were nightmarish. There were other people around who were probably struggling just as much as me, though."

David Heslop, now managing director of Mazda cars in the UK, went straight to LBS with a degree in biochemistry at the age of 22 – one of the youngest students ever to do the course. The downside for him was that he was unable to to bring any work experience to the course. As a result, when he later worked for LBS interviewing students who wanted to study for the MBA he says he was particularly tough on those who applied with no work experience.

Students recall a high level of class participation and discussions as intense. "I can remember we chewed up two lecturers," says Lambden. For most graduates the real benefits came from the interaction between students. "It was the project work we did with colleagues where I learnt the most," says How.

The social perspective of the course was very strong, says Lambden. "About half the year were regular social animals. They were not there purely to work," he recalls. "There are still 20 or 30 people I'm still delighted to meet and have a drink with."

Heslop agrees. "It's a bit like trench warfare," he says. "If you've been working together so intensely for two years you can revert back into the relationship very easily, even if you don't see each other very often."

Punters queue for Magic Stretcher

Keith Wheatley on the boost that Euro 96 promises for the UK's betting industry

Steve Lawrence's study is filled with football magazines and files full of clippings on soccer teams from Turkey to Romania. When England kick off against Switzerland in London on Saturday at the start of Euro 96 – the European football finals – it will be the start of the most intense period of Lawrence's working life.

Steve (not his real name) is a professional punter. After a lengthy conversation I still wasn't sure whether he liked football, but he certainly knows a lot about it. "It's like anything in the financial world. You have to read up an awful lot before taking a position," he said, in a cultured Scots accent to match any Edinburgh banker.

How many goals do you think will be scored during the whole of Euro 96, which runs from June 8 to 30? Sporting Index, the specialist in sports spread betting, says 72-74. Steve thinks that is way too conservative, and has "bought" goals at £2,000 apiece. He hopes to win £2,000 per goal for every goal above 74. "The worst result has to be a total of only 60 goals. That's going to cost me about 25 grand if it happens". (He says he could live with such a loss).

Across Europe, in betting's trenches, rival armies of punters and bookmakers are limbering up for the big one. To most sports fans, Euro 96 will be about "the beautiful game" – or "spot the yob", depending on how they regard soccer. For the UK gambling industry, it looks like three weeks of hot money.

"It will be the first time that any British sporting event has attracted a bigger turnover than the Grand National [steeplechase]," says Graham Sharpe of bookmakers William Hill. His firm is predicting that UK punters will bet an overall total of between £75m and £100m.

Sharpe believes that betting has become a much stronger part of British culture in recent times. (I agree, though despite the role of the UK national lottery in promoting overall gambling turnover I refrained from using the dreaded L-word in front of a bookie).

The current passion – or fashion – for soccer will no doubt fuel the punting fervour. "If you're going to sit and watch Bulgaria play Denmark, the only real reason to get involved in the game is if you've got a fiver on the match and become an honorary Bulgarian for the day," says Sharpe.

Most bets will be of the pin-money variety, light years from Steve Lawrence and his war-chest. "The biggest part of it will be fivers and tenners punted on impulse," says Ladbroke's spokesman, Paul Austin. "Football betting has grown enormously in the last four or five years." Ladbroke has paid the English Football Association a "modest" fee to become official bookmaker to Euro 96, which, in Austin's view, "will generate more money than any other event in British betting history."

His confidence is based partly on experience of the 1994 soccer World Cup in the US. The UK public staked about £60m, despite there being no domestic UK involvement in the finals of the competition. Austin says that betting on football has grown at least 10 per cent a year since the World Cup finals in Italy in 1990.

With the recently finished English Premiership race going to the wire (Manchester United pipping Newcastle United for the title), 1995-96 was a particularly good season for the bookies, who maintain they have become part of the pyschology of the game. "Our switch from rating Newcastle as favourites to win the Premiership to Manchester United was a crucial moment in the final days," says Austin.

So far, £5,000 on Germany to win is the biggest single bet Ladbroke has taken, but on past form plunges of £10,000 and even £20,000 will be seen as the tournament progresses. A few happy punters with great foresight and imagination are already sitting on significant ante-post (pre-tournament) positions.

In fact, William Hill says it is facing a coup even before Saturday's kick-off. A single bettor will win at least £200,932.60 if Holland, Germany, Italy or Spain win the championship. A mystery investor – well, nobody knows his name – walked into a William Hill betting shop in Folkestone on April 2 and made four separate nine-event accumulator bets for a total outlay, including betting tax, of £511.21.

Each bet contained eight identical selections – all of which have proved successful. They were (with odds in brackets): St Helens to win the rugby league Challenge Cup (1-4), Glasgow Rangers to win Scottish soccer's Premiership (1-7), Dunfermline in Scotland's Division 1 (11-8), Sunderland to win English soccer's Division 1 (1-5), Preston to win Division 3 (8-15), Mark of Esteem to win the English 2,000 Guineas horse race at Newmarket (7-1), Bosra Sham to win the 1,000 Guineas (5-2) and Manchester United to win the English Premiership (4-7).

Each of the four bets ends with a different Euro 96 selection: Holland at 9-2, Germany and Italy at 5-1, and Spain at 7-1. "We don't know much about this punter other than that he knows his sport, stands to win the biggest pay-out of the year so far and that he doesn't rate England and Terry Venables' chance of winning Euro 96," says Graham Sharpe. Neither do many other fans, perhaps reluctant to put their money where their hearts are. "We haven't taken a bet on England to win since their performance [in a friendly] in Hong Kong," says Ladbroke.

Rough business: punters are invited to predict how many times a stretcher will be sent on to the pitch

For those who find the worries of form or patriotism too burdensome, there are plenty of bets that involve far less cerebral or emotional complexity. Sporting Index is finding huge interest in its Magic Stretcher special. Punters with a taste for the macabre are invited to predict the total number of times a stretcher will be seen on a pitch during Euro 96 (this may not necessarily represent a serious injury, since under tournament rules a competitor must either rise to his feet and play on within 30 seconds of being knocked down, or be stretchered off).

Sporting Index offers a spread of 60-64 stretcher interventions. "We're taking a lot of bets on this one," says Wally Pyrah of Sporting Index. "We've got one guy who's 'bought' the stretcher for £2,000 a time, so he's predicting it's going to be a reasonably dirty championship."

I couldn't quite get my mind around the idea of bookies watching a football match and knowing that their profit or loss depended on a few more knee-crunching tackles. But moral hazard comes with the turf. Asking a few bookies how they'd like to see Euro 96 pan out produced this response from Paul Austin of Ladbroke: "Our best scenario would be England and Scotland in the semi-finals – and both losing – followed by a final we could enjoy without worrying about our liabilities, say Turkey *vs* Czechoslovakia (sic)."

Local firm excels with scheme for new Glasgow gallery

Colin Amery on the Scottish city's eminence as a centre for the visual arts

It is miles better in Glasgow. The city is streets ahead of many British cities when it comes to planning for the visual arts and architecture.

In 1999 it will be the City of Architecture, and preparations are advanced to ensure an increasing public awareness of the importance of the built environment. Until October, Glasgow is running a festival of the visual arts, and is doing so in magnificent fashion.

Earlier this year it opened a new gallery of modern art in the splendid premises of the former Royal Exchange building, at the very heart of Glasgow, while late last month the city's McLellan Galleries opened the biggest and finest exhibition of the work of local hero Charles Rennie Mackintosh. That important show will travel to New York, Chicago and Los Angeles – it will not be seen in London – and is itself well worth journeying to Glasgow.

Last Friday the crowning touch was put on the city's development as a leading European centre of the visual arts by the announcement of the winners of an international competition to appoint architects for the new National Gallery of Scottish Art and Design.

This will occupy the former head post office in George Square. (I have an interest: I was a member of the nine-man jury).

The competition was different from many recent ones in that it was, at the final judging stage, entirely anonymous. This meant that the jury was simply presented with fully worked-up drawings identified only by a number.

By a process of careful elimination, No 405 was selected by a majority of the jury. No 405 – an excellent design – turned out to be by the local Glasgow firm of Page and Park.

This is a relatively small firm which had been competing against significant international architects, including Mario Botta and Rafael Moneo. The winners' designs for the adaptation of Glasgow's huge 19th century post office are both practical and splendid. The new National Gallery of Scottish Art and Design will bring together the art, architecture and design of the 19th and 20th centuries.

Providing its bid for national lottery cash succeeds, it should play a key role in the intellectual and cultural renaissance of Scotland. Glasgow is so clearly the right place for this venture because the city itself is not only the largest centre of population in Scotland but the place where the visual arts have flourished since the 19th century.

Of all the architects in the competition, Page and Park alone understood clearly how the conversion of a great 19th century public building can bring about that fusion of monumentality and modernity that has long been at the heart of Scottish architecture.

Glasgow is the only British city fully developed at its centre on a grid plan. Edinburgh may have more sublime drama in its response to its rugged setting, but Glasgow is more like an American city in its dependence on its buildings for its character.

It is important that their proposals for the civic improvements to George Square are also carried out (especially the reordering of the splendid public sculpture) as part of the national gallery scheme, for the square is the ante-room to the great new interior space proposed by the architects as the heart of the new gallery. The intensely powerful hall of sculpture will provide visitors with a place of classical repose and calm.

I was afraid that the recent over-exposure of the designs of Charles Rennie Mackintosh would trivialise the huge exhibition in Glasgow, but the show is carefully selected and the 300 works do not overwhelm. What shines forth is Mackintosh's genius, and the decorative skills of his wife.

Indeed, to see the reconstruction of the black and yellow hall for the Basset Lowke house in Northampton is something of a visual shock, for it is the intensity of Mackintosh's belief in art as the flower of life that is brilliantly captured in this exhibition.

His beliefs and feelings transcend his artistic sources. Look at his furniture, which is totally original – there is a chance in this show to compare it with the work of his European contemporaries, Olbrich and Hoffmann in Vienna. The white and silver wardrobe stays in the memory as one of the outstanding objects of its time.

The exhibition encompasses Mackintosh's later years when he had no design work and he became a brilliant water colourist.

Whatever he touched, he transformed. It is rare for an exhibition to capture the passion of the artist it is showing but this one does, superbly.

THE WEEK AHEAD

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
Alexandra Workwear, Institute of Directors, 116, Pall Mall, S.W., 11.00
EW Fact, 23, Hand Court, W.C., 12.00
Perry, Cambridge House, Bluecoats Ave, Hertford, 12.00
Simon Engineering, Stationers' Hall, Ave Maria Lane, E.C., 12.00
BOARD MEETINGS:
Finals:
Azlan
Cleveland Tst
Hambro Insurance Services
Independents Parts
South Staffs Water
Interims:
Faber Prest
Stakis
Victrex

■ TOMORROW
COMPANY MEETINGS:
Beattie (J), 71-78, Victoria Street, Wolverhampton, 10.00
Brammer, Glaziers Hall, 9, Montague Close, London Bridge, S.E., 12.00
Higgs & Hill, Howard Hotel, Temple Place, W.C., 12.00
Jacks (William), Sunningdale Carriage Co., London Road, Sunningdale, Berks., 12.00
Lamont, Savoy Hotel, Strand, W.C., 12.00
Pacific Media, Lanesborough Hotel, 1, Lanesborough Place, S.W., 10.30
Singer & Friedlander, 21, New Street, Bishopsgate, E.C., 12.30
BOARD MEETINGS:
Finals:
Allied Colloids
Ascot
Capitol
Celtic Res.
De La Rue
EMAP
Fulcrum Inv Tst
Gartmore Shared Equity Tst
National Grid
Owen & Robinson
RIT Capital Partners
Robert Wiseman Dairies
St. James's Place Capital
TLG
Thames Water
Vodafone
Interims:
Apollo Metals
Barcom
Crabtree
Eurocopy
Leeds
MEPC
SEP Indl
Sheriff

■ WEDNESDAY JUNE 5
COMPANY MEETINGS:
AMEC, Holiday Inn Crowne Plaza Hotel, Peter Street, Manchester, 12.00
Bentalls, Guildhall, Kingston upon Thames, Surrey, 11.00
Booker, Haberdashers Hall, Staining Lane, E.C., 3.00
Frost Group, The Brewery, Chiswell Street, 11.00
Gieves, Dartmouth House, 37, Charles Street, W., 12.00
Havelock Europa, Mossway, Hillend Industrial Park, Dalgety Bay, Fife, 12.00
Hopkinsons, Copthorne Hotel, Clippers Quay, Salford Quays, Manchester, 12.00
London & Associated Properties, 8-10, New Fetter Lane, E.C., 12.00
London & Manchester, Armourers' Hall, 81, Coleman Street, E.C., 12.15
Mid-States, Swallow International Hotel, 147c, Cromwell Road, S.W., 9.00
Parity, Salters Hall, 4, Fore Street, E.C., 11.00
Signet, Glaziers Hall, 9, Montague Close, London Bridge, S.E., 12.00
BOARD MEETINGS:
Finals:
For & Col Priv Eq
Northern Investors
OMI Int
Powerscreen
Racal Elec
Shanks & McEwan
Staveley Inds.
Yorkshire Water
Interims:
Everards Brewery
Fairbairn European Smaller Co's Index Tst
Freepages
New Zealand Inv Tst
United Drug
Warner Estate

■ THURSDAY JUNE 6
COMPANY MEETINGS:
Austin Reed, 16-21, Sackville Street, W., 12.00
BS Group, Eastgate House, Eastgate Centre, Eastville, Bristol, 12.00
Etam, Royal Institute of British Architects, 66, Portland Place, W., 10.30
Flextech, The Ritz Hotel, 150, Piccadilly, W., 12.00
Hewden Stuart, Glasgow Royal Concert Hall, Buchanan Street, Glasgow, 12.00
Radamec, City of London Club, 19, Old Broad Street, E.C., 12.00
Tilbury Douglas, Barber Surgeons' Hall, Monkwell Square, E.C., 11.30
BOARD MEETINGS:
Finals:
Airsprung Furniture
Amersham Int
Boots
Cedardata
Chubb Security
CPL Aromas
Cullens Hldgs.
Davenport Knitwear
European Colour
Fleming High Inc IT
Midlands Elect
Northern Ireland Elec
Oxford Instruments
Pilkington
Porter Chadburn
Powell Duffryn
Siebe
3i
Umeco
Interims:
Denby
Greencore
Hill & Smith
Lookers
Murray Emerging Econ
Unidare

■ FRIDAY JUNE 7
COMPANY MEETINGS:
Davis Service, Glaziers Hall, 9, Montague Close, London Bridge, S.E., 11.00
Morgan Crucible, Hotel Intercontinental, 1, Hamilton Place, Hyde Park Corner, W., 12.30
Shorco, Cross Green Way, Leeds, 12.00
Spring Ram, Holiday Inn, Wellington Street, Leeds, 12.00
Taylor Woodrow, Chartered Accountants Hall, Moorgate Place, E.C., 11.30
Tesco, New Connaught Rooms, 61-65, Great Queen Street, W.C., 11.00
BOARD MEETINGS:
Finals:
Brazilian Small Cos IT
Cohen (A)
Dunedin Enterprise
Liberty
Park Food
Interims:
For & Col Special UT

Company meetings are AGMs unless otherwise stated.
Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

DIVIDEND & INTEREST PAYMENTS

■ TODAY
Ahmanson (HF) $0.22
Anglo & O'seas Tst 9% Secd Db '12 £900.0
Asarco $0.20
BTR 9.15p
Barclays Non-Cm $ Pf Ser C1 $0.4219
Do Ser C2 $0.1406
Do Ser D1 $0.4313
Do Ser D2 $0.1437
Do Units $0.5625
Do Regd Ser D Pf Units $0.575
British Aerospace 7.5p
BWI 3p
Capital & Regional Props. 1.7p
Caradon Cv Pf 3.625p
City Centre Rests. 1.79p
Dalgety 8.5p
Enterprise Oil 9.5p
Do 10¾% Un Ln 2013 £5.375
Fleming Claverhouse Inv Tst 1.45p
Fuji Bank Int Fin Und Sb FRN $1593.69
Gartmore Smaller Co's Tst 1.5p
Halifax Bldg Scty Fxd/FRN '97 £1000.0
Highland Distilleries 2p
Hiscox Dedicated Ins Fd 1.5p
HSBC 22.75p
Ingersoll-Rand $0.185
Intrum Justitia 2.4p
Ladbroke 3.6p
Legal & General 16.7p
Lloyds Bank 9½% Sb Bd '09 £95.0
Mitsui Toatsu Ch. 7¼% Bd '98 Y275000.0
Murray VCT 0.78p
Nash (Wm) 4.2p
Northern Leisure 2p
Oasis Stores 3.33p
Ocean 9.62p
RMC 17.6p
Rockwell Int $0.29
St. Ives 2.9p
Sanwa Fin Aruba Gtd Sb FRN 4 $765.25
Sentry Farming 5.1p
Sumitomo Heavy 3.4% Nts '98 Y340000.0
Svenska Cellulosa B SKr4.75
Sweden 10¾% Nts 1998 C$106.25
Telefonica de Espana Pta46.0
Thai-Euro Fd $0.225
Wilson (Connolly) 3.18p

■ TOMORROW
Brooks Service 2p
EW Fact 0.75p
Gradus 3.6p
Japan Air. 7½% Gtd bd '96 FFr750.0
Lloyds Bank Sb FRN 1999 £17.12
NT & T 8¾% Nts 1997 Ecu87.50
New Witwatersrand R1.02
New City & Comm Inv Tst 3p
Rexam 8p

■ WEDNESDAY JUNE 5
Bergesen A NKr1.0
Do B N/Vtg NKr1.0
Broken Hill A$0.26
Caradon 6.6p
Carrs Milling 2.5p
Cavendish Wates First Assured 1.5p
Dickie (James) 2.2p
Gillette $0.18
Hamleys 5.4p
Higgs & Hill 1.5p
Mercury Offshore Stlg Tst 3.55p
Nestle FFr26.50
Scottish Television 12.25p
Select Appointments 0.25p
Senior Eng 2.23p
Singer & Friedlander 2.4p
Tokyo Elec Power 11% Nts '01 £110.0
Vymura 3.1p

■ THURSDAY JUNE 6
Fortis Amev FL2.64
Halifax Bldg Scty FRN '99 £153.96
Halstead (James) 3.25p
Inco $0.10
Midland Independent News 2.3p
Portmeirion Potteries 8.5p
Rugby Estates 1.45p
Sotheby's Class A $0.08
Thompson Clive 3.8p

■ FRIDAY JUNE 7
Abbott Mead Vickers 6.25p
Aberforth Split Level Tst 2.1p
Do Units 2.1p
Anglo Am. Inv Tst R3.57
Anglo Irish Bank FRN 1998 £157.10
Boeing $0.28
Boot (Henry) 5.55p
Bostrom 3.9p
Coutts Consulting 1.4p
Glynwed Int 8.35p
Govett Strategic Inv Tst 2.8p
Jerome (S) 1.5p
Lloyds Chemists 3.1p
Lowland Inv 4p
Norway FRN Dec 2002 $136.61
P & O Prop. 7½% 1st Mtg.Db 97/2002 £3.75
Pearson 10.175p
Pegasus 4p
Quicks 3.75p
Royal Doulton 6.5p
Sime Darby M$0.035
Smiths Inds 5.6p
Treasury 7½% 2006 £3.75
Treasury 8% 2000 £4.0
Treasury 8% 2015 £4.0
Treasury 8% 2021 £2.1699
Treasury 8½% 2005 £4.25

■ SATURDAY JUNE 8
Reed Int 5% Cm Pf 1.75p
Do 7% Cm Pf 2.45p

■ SUNDAY JUNE 9
European Inv Bank 9½% Ln '09 £237.50

Animal Planet in tune with nature lovers

Raymond Snoddy reports on the launch of Discovery Communications' latest documentary channel

John Hendricks loves watching television nature programmes, and now he will be able to indulge his interest 24 hours a day. At the weekend, Hendricks' Discovery Communications launched Animal Planet, which promises to screen "all the animals all the time", on American cable and satellite TV.

The channel will draw on the animal programmes of broadcasters such as the BBC, Anglia Television and TV New Zealand. There is also the possibility of launching channel internationally later this year.

Animal Planet is the latest creation of 44-year old Hendricks, a former university administrator who was besotted by television and who has become a multimillionaire by broadcasting into wholly commercial markets largely dominated by the sort of programmes he likes watching himself: serious documentaries.

"When you walk into a bookstore, half the books are fiction and the other half non-fiction, and fact can still be stranger than fiction," says Hendricks.

He first became aware of how many quality documentaries there were years ago when, as a history major, he used to order BBC programmes from catalogues for his professor, who liked to use documentaries in the classroom.

Hendricks, who has created a business that had revenues of $452m and profits before tax and interest of $49m last year, uses all the latest technology to deliver his facts to the world. The company's World Wide Web site is one of the Top 10 in terms of visits, and provides more than 1,000 pages of educational material each month as well as an online service which includes digital photographs and downloaded videos, plus personal letters from the field.

Discovery is also taking advantage of the launch of digital cable television in the US in October to unveil four new channels: Discovery Science, Discovery History, Discovery Kids and Discovery Living. They, in turn, could all be turned into international channels over the next two years as digital television and its capacity for hundreds of channels of television spreads globally.

Already, Discovery Communications claims to be the largest *originator of* documentary programmes in the world. This year it will broadcast 1,800 hours of original production – about 100 of them at the high end of the range: programmes costing $400,000 an hour.

Hendricks has enjoyed becoming a multi-millionaire by broadcasting programmes that everyone approves of. He says: "We operate in an area that's pro-social. Yet we are a for-profits business and we have been successful, and we have proven that you can make a business in this area."

In independent research on the perceived overall quality of 500 brands, the Discovery Channel came in at No 4 ahead of Mercedes-Benz, while its sister channel, the Learning Channel, was 21st. They were the only broadcasters in the top 25.

Hendricks admits that some people might say they watch Discovery because they want to be thought intelligent, whereas they are really watching professional wrestling. However, the Discovery Communications chairman and chief executive says that viewing figures are higher than those of Ted Turner's Cable News Network.

"We think we have succeeded when someone watches an hour of Discovery and says 'Gee, I didn't know that'. It just so happens that the people attracted to Discovery are the people that advertisers relish: light broadcast-TV viewers who tend to read a lot," says Hendricks.

At the moment, Discovery is in 67m US homes and in 38m homes in 144 other countries.

Raising the money for Discovery was not easy: Hendricks had three tortuous years in which 211 venture capitalists turned him down and he "borrowed more money than I could ever repay". Then he met Herbert Allen of Allen & Co, the New York investment bank that specialises in the media and is involved in some of the world's biggest media deals.

"Herbert himself wrote the first cheque," says Hendricks, who was then able to persuade New York Life Assurance and the Westinghouse Corporation to support him. He had $3m, and 70 small investors put up a further $2m. By the time the money ran out and a further $20m was needed, the cable companies had noticed that Discovery was bringing in the cable subscribers they couldn't normally get to, and invested in the business.

John Hendricks: besotted by televison and wild about nature

TCI, the largest US cable company, holds 48 per cent through its Liberty Media programming arm. The other main shareholders are Cox Communications of Atlanta and Newhouse, the US media group that owns both cable networks and Condé Naste, the magazine publisher. John Hendricks owns 3 per cent of the company, including options. In the latest commercial development, Discovery paid around $40m for the Nature Company, which has 133 shops devoted to products extolling the virtues of nature. The Nature stores will be used to promote Animal Planet by offering customers $5 discount vouchers.

In the autumn, Discovery will launch its first feature film, *Leopard Son*, about the life of a leopard cub, and a near-video-on-demand service, Your Choice, offering $1-a-time programmes. But Hendricks' favourite series at the moment is on the Learning Channel: a 22-part series called Understanding, which briefs viewers on different topics, often science-related.

Tim Jackson

Wanted: a blacklist of reckless guests

"Hi. I am a costume jewellery designer, and I visit my retail outlets in London three to four times a year. I am tired of staying in hotels and dining in restaurants, and I'd like to arrange a temporary exchange of my chalet in Verbier or my country house in Hong Kong for your house in London. The chalet, on two levels with two bedrooms, is furnished with love and taste. The Hong Kong country house is on a deserted island linked by a causeway – 5 minutes' walk on tiny paths meandering through abandoned rice fields – to the most magnificent and brand new golf course in south-east Asia."

This message arrived by e-mail last autumn, when I was trying to find a place to live in California for the winter while researching a book. I had turned to the Internet for help after trying unsuccessfully to arrange a house-swap using a traditional exchange agency.

The traditional agencies' business methods seemed rudimentary: you had to pay a signing-on fee of £50 ($76) and then send details of your house to the agency by post. Months later, you would receive a shoddily printed booklet containing brief descriptions and addresses for houses across the world. Sadly, few of the houses looked much fun. Worse, the details were too short to be truly informative, and properties were sorted only by country, not by size or by whether they were in the city or not.

Here, it seemed, was a marvellous opportunity to use the Net to revolutionise a business. Essentially, the job of arranging home exchanges is about connecting people from different parts of the world, and allowing them to exchange information quickly, cheaply and conveniently. A Net service, updated electronically, seemed destined to put the old agencies out of business quickly.

Hence our decision to sign up with one or two house exchange agencies. I cannot even remember which the services were: all I know is that they were found by typing "home exchange" or some such phrase into a Web search engine. But during succeeding months, tantalising details would appear in my incoming mailbox. First the ski chalet and the Hong Kong house; then a condo in Maui; then five bedrooms in the Oakland Hills; then a *pied à terre* in Paris (closest Metro: République); then a place 5 hours north of Toronto, with eight telephones, two pianos and facilities for kayaking; and finally a condo in Russian Hill, San Francisco.

There was only one problem. We didn't want to live in Maui, Oakland, Paris or Toronto; what we needed was a nice house in Palo Alto, close to bookshops, playgrounds and cafés and a convenient base from which to research the book. There were not many houses like that available for a short let, and not many of the owners of those that were appeared to want to spend three months in London in the greyest, rainiest months of the year. In the end, money proved the best means of exchange. Instead of trying to find one person or family with whom to swap, we rented out the house in London and put that income towards the rental of the house in California.

But Net-based house exchange seems to be a business with great potential. At present, it is only a tiny minority of people who take holidays by exchanging houses with others; part of the reason for this is the simple difficulty of making contact with them. Why, then, has it not taken off?

One reason is the old problem of chicken and egg. Most of the Net-based agencies make a high charge for registering a house, which acts as a severe discouragement to potential clients who are uncertain about the new service. At present, therefore, aspiring house-swappers who are not willing to pay for a high-priced service are reduced instead to the time-consuming business of looking among the unsorted house-exchange messages posted to news groups. In my view the winner in this business will be the company that uses the Netscape formula: it will give away its service for a good long time, in order to increase the size of its network and hence the value of its service.

But there is another obstacle that must be overcome before Net-based house-swapping becomes a reality: lack of trust. In an old-fashioned house exchange system, the sanction that makes sure people act as civilised guests is the fear that they will be struck off the list in future. At present, this element seems absent from the Net.

But it could easily be introduced: the broker could invite its clients to record their impressions, both of other people's houses and of the behaviour of others in their own, for storage on the database. An aspiring client would then be able to read the "guest book" of a house offered for exchange before deciding to spend a fortnight there. Anxious homeowners would also be able to check on whether someone had a history of leaving lovingly compiled record collections in chaos, or turning down the corners of book pages in people's libraries.

Clearly, there is much work still to do. Yet my feeling is that there are the bones of a great company here – and one that could soon become as indispensable to the middle-class professional as a Marks & Spencer chill-cooked dinner. How long will it be before an entrepreneur tests this hypothesis?

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Dodging digital audio disc dangers

The music industry is eager to prevent unauthorised recordings, Alice Rawsthorn reports

As the world's electronics companies prepare for a crunch meeting with the Hollywood movie studios in Washington today to discuss digital video discs, they are embarking on talks with the music industry on the audio version of digital discs.

Digital audio discs will offer higher quality reproduction and greater storage than cassette tapes or audio compact discs, just as digital video discs will out-shine video cassettes. Similarly, negotiations over the copyright implications of creating digital discs capable of making near-perfect recordings will be fraught with difficulties.

Whereas the video versions of the discs will, if today's meeting goes well, be on the market this autumn, audio discs will not be on sale for several years. And the copyright talks are complicated because neither the electronics nor the music companies know exactly how consumers will use them.

In theory, the first generation of audio discs could be used to upgrade CD systems. A U2 fan would not only be able to listen to a subtler and more precise rendition of the band's music, but, because digital discs have such vast storage capacity (capable of accommodating seven CDs on each side), all U2's recordings could be squeezed on to one disc.

However, there are doubts among music executives as to *how many consumers will* want to buy an entire *oeuvre* on a single disc. And the difference between CDs and digital discs is almost inaudible unless the acoustics of the room are perfect.

Why are the music and electronics industries bothering to discuss copyright standards for digital audio disc? Answer: both camps suspect the new discs may play an integral role in multimedia systems. Rather than buying an album or single from a shop, music will be delivered to consumers online in digital form and downloaded from their computers on to digital discs. It is already technically possible to distribute music online, but it takes time *and sound quality is erratic.*

But the industry has not yet secured adequate legal protection for its copyrights.

"We're looking at a scenario where it will be possible to produce perfect digital copies of original recordings," says Mike Edwards, director of operations at the International Federation of the Phonographic Industry. "Clearly we can't allow that to happen, or piracy would be uncontrollable."

At a meeting in Tokyo last month, the music industry informed the electronics lobby that it wanted the new discs to include an "active copy management system" to prevent unauthorised recordings and to provide compatibility with CDs, so that digital discs can be played on CD systems and vice versa.

The electronics companies are expected to deliver their response at another meeting later *this month, thus moving* the debate into what promises to be a tortuous wrangle over copyright in the digital era.

Bit makers and shifters to view

The complex world of bit makers (content companies), bit shifters (telecoms operators) and bit processors (manufacturers) is set out in pictures in *The TeleGeography 100*, a graphical guide to the world's chief information technology companies.

It is an essential reference for anybody hoping to understand the bewildering tangle of alliances and partnerships which characterise the electronics industries today.

It includes relationship maps for, among others, 22 of the world's largest telecoms operators, 18 of the top computer groups, eight of the top cable television companies and the top 10 entertainment groups.

Not only is a company's relationships sketched out in a pattern resembling a family tree, but a brief pen picture outlining its strengths and weaknesses is attached. So for Koninklijke PTT Nederland (KPN) the Dutch operator: "The company's disproportionate influence on international communications markets is evidenced by its equal stake with Telefonica, Telia and Swiss Telecom in Unisource, the pan-European telecoms consortium."

There are some oddities, however. BT's entry concentrates on the advantages of a merger with Cable & Wireless, despite the fact that talks have been discontinued, and Michael Hepher, who left last year, is still described as group managing director.

Among the "Companies to Watch", it lists 3Com and Cisco Systems among networking groups, Inmarsat and Telmex among operators and General Instrument and Xerox among manufacturers.

The TeleGeography 100 is produced by the same editorial team which publishes the annual *TeleGeography* study which brings together global telecommunications traffic, statistics and commentary, indispensable information for anyone involved in analysing the global telecoms business.

Alan Cane

The TeleGeography 100, $495; TeleGeography Inc., Suite 100, 1150 Connecticut Avenue NW, Washington DC 20036. Tel: (202) 467 0017.

Cyber sightings

by Steven McGookin

● BR Business Systems, the IT division of British Rail, last week launched UK Railways on the Internet (*www.rail.co.uk*) which is intended to be a "point of departure" for anyone seeking information on – or even wanting to buy a bit of – Britain's rail network. It's well laid out and informative although as yet without timetables. Links to Deutsche Bahn and the wonderful Amtrak site make it required reading for those anoraked chaps at the end of the platform at Clapham Junction.

● The Group of Thirty is a Washington-based consultative group on international economic and monetary affairs. Their site (*www.group30.org*) features a list of publications and occasional papers, with details of membership and aims.

● Despite the 70s-style psychedelic graphics when you enter, Wall Street Research Net (*www.wsrn.com*) offers lots of useful links – more than 65,000, they say – covering all aspects of US corporate and economic activity. Searchable mutual funds details and a simple Campaign96 page.

● Silicon Investor (*www.techstocks.com*) has a range of data for anyone who tracks the technology stocks sector. It has a useful events calendar and 15-minute delayed quotes, as well as Silicon Valley news headlines from local station KICU-TV.

● World Wide Arts Resources (*http://wwar.com*) has an excellent range of links to galleries, museums, art markets, antique dealers and other locations. Good, browsable site, which has plenty to hold your attention whether or not you're an art investor.

● Megastock (*www.megastock.com*) is a Canadian site aimed at the speculative investor. It also offers details of companies seeking Initial Public Offerings, and a rudimentary guide to the mining industry. Also has official information from the Alberta and Vancouver Stock Exchanges. Unexciting for outsiders, but highly targeted – the name of the game in Net investment sites.

● Finally, a word about an event happening next Sunday, June 9, in Nottingham. Euro-Net96 is a football tournament for teams comprised of players who have met through supporters' Net lists. Details are at *www.harlequin.com/euronet96*. Good luck to Ivan and the Hotspurs. Not sure about the 'Charity Headshave' event, though...

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Financial Times on the World Wide Web
www.ft.com
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www.usa.ft.com
Updated daily

Travel News · Roger Bray

Safe handling

A new security system to prevent terrorists slipping unaccompanied bags containing explosives on to aircraft should start operating at London Heathrow's Terminal 1 this week. Devised at Frankfurt airport, where the doomed Lockerbie flight PanAm 103 started its journey in December 1988, the new system uses a computer to "reconcile" travellers with their luggage.

A baggage handler passes a scanner over the bar code on a label attached to luggage at check-in. A colour screen flashes "Yes" in large letters if the passenger has been issued with a boarding pass, "No" if not.

If someone fails to show up at the gate, the system alerts security staff that bags must be off-loaded before the aircraft leaves the stand.

Model Mayan hotel

The spectacular Mayan pyramids of Tikal have been used as architectural models for a hotel opening close to the centre of Guatemala City later this year.

Claiming to offer the largest convention space in central America, the 205-room Tikal Futura will be managed by Hyatt International and promises state-of-the-art communications in the bedrooms, along with business and fitness centres. It will be part of a complex that will include a shopping arcade, food court and four cinemas.

BA back in Belgrade

British Airways has confirmed that, after almost 15 years, it will resume services to Belgrade this summer. Chief executive Bob Ayling says the airline thinks the time is ripe to start flights again after the lifting of sanctions against Serbia and a consequent notable increase in travel to and trade with other European capitals.

A number of well-known British companies, among them ICI and and ICL, have set up shop in Belgrade again, and international hotels are reporting high occupancy levels. Flights to the capital of the new federal republic of Yugoslavia will operate from London Gatwick, on Monday, Wednesday and Saturday afternoons, with late-evening return departures.

Fares start at £280 return and, subject to government approval, services will start on July 12. Gatwick is becoming a hub for east European operations. BA already flies from there to Baku, Bucharest, Moscow and Sofia and today it launches another service: three flights a week to Kiev.

Crime warning

There is some unequivocal and chilling advice from the UK Foreign Office consular department for travellers heading to El Salvador, which, it warns, is suffering from "significant lawlessness throughout the country". Victims of robberies are likely to be murdered even if they show no resistance, it says.

Such crimes occur on public or private transport, in towns or on main roads, says the FO. Avoid travelling outside the capital after dark – and do not wear jewellery. For updates, call the British embassy in San Salvador on 298 1768/1769/1455.

Aden's new airport

Yemen's Aden airport, damaged in 1994 during the two-month civil war between south and north, is to receive a $20m (£13.24m) facelift. The World Bank is lending $14m and France is providing $6m in aid. At the same time, the country's two airlines have been amalgamated as Yemenia, the name of the northern carrier, based at Sanaa. The southern airline, Al Yemda, operated from Aden. Observers believe the merger will make flying to and within Yemen quicker.

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
[illegible]	[illegible]	[illegible]	[illegible]	20	21
Hong Kong	30	30	30	30	31
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Frankfurt	[illegible]	[illegible]	30	31	30
New York	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
L Angeles	25	27	33	35	26
[illegible]	[illegible]	[illegible]	[illegible]	27	27
Paris	21	23	27	29	28
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Information supplied by Meteo Consult of the Netherlands. Maximum temperatures in Celsius

Michael Skapinker on the airport business lounge

A dubious privilege

In my first few seconds on the ski slopes, I smashed into a wooden barrier and tumbled head over heels into the snow. But Tracey Meaker, corporate communications manager at Virgin Atlantic, remained encouraging.

Tracey had chosen the easiest option for me on the ski simulator in the Virgin lounge at Heathrow airport and was kindly oblivious to my inability to manage even this.

"Well done!" she shouted as I successfully manoeuvred my way between two poles about 100 metres apart. Matters became more serious as a narrow bridge loomed. "Just go straight," Tracey said tightly, worried, no doubt, by the thought of hours by my bedside in some simulated traction unit.

I zoomed under the bridge, and a message on the screen recorded my place in the race against my virtual reality competitors: fifth out of five.

In my experience of airport lounges, I would put Virgin first out of about 56. Its lounge at Heathrow, recently refurbished, has an airy rooftop conservatory and a library.

It is not just the gimmicks which set the Virgin lounge apart: the ski simulator, the putting green, the sound-proofed music room, the hydrotherapy bath or the free massage service. It is the space and the sense of being somewhere other than in a sweaty airport terminal.

In this it differs from many business lounges whose purpose is hard to fathom. All lounges give the impression that people are fighting to get into them. Receptionists guard the doors zealously, granting entry only to those with business or first-class boarding passes.

Why should you want to get in? Because in the departure halls outside, you are packed next to people you do not know, who tread on your toes, wave newspapers in your face and force you to listen to trivial conversations on their mobile telephones.

And what is life like inside the lounges? Usually, you are packed next to people you do not know, who tread on your toes, wave newspapers in your face and force you to listen to trivial conversations on their mobile telephones. In the lounges, there is also a television blaring in the background.

It is true that in the business lounges, the chairs are padded. There are also free drinks, peanuts and newspapers. But the problem with many lounges is that they are too small for comfort. The chairs are too close together. They are also arranged in squares, forcing you to sit face-to-face with strangers. At least in the departure halls the chairs all face in the same direction.

Ask people why they want to get into the business lounges and they will say they can do their work there. They can telephone their offices and send faxes. But few people send faxes from airports and you can make a call just as easily from the telephones in the departure halls – or on a mobile from a corner of the terminal far quieter than the business lounges.

There are airports so dirty, disorganised and lacking in facilities that any business lounge, no matter how crowded, is a welcome escape. But there are many others in which the departure halls are more pleasant than the business lounges.

Schiphol in Amsterdam offers diversions like virtual reality golf to everyone, not just those in business class. Changi in Singapore has acres of brightly-lit space; the Singapore Airlines business lounge is also large, but crowded and gloomy.

The real reason people want to get into the business lounges is because so many others are kept out. It must be a privilege worth having, otherwise why are most travellers denied it?

So eager are travellers to escape the hordes outside that they will pay a fee to get into a business lounge even when they are flying economy. On display at Heathrow are brochures for something called Priority Pass.

Priority Pass says it can get you past the receptionists in 140 lounges. All you have to do is pay $99 a year and $21 every time you use a lounge. The company says it has over 100,000 members. You can find them in the business lounges in Barbados, Bologna, Boston and Brussels. There they sit knee to knee with all the other business lounge residents: all pampered, all privileged and all wondering why they are not happier.

Pleasant moments on the softer side of Sofia

The exchange rate display in the lobby of the Inter-Continental hotel in Sofia spoke volumes. The Bulgarian lev had plunged by 25 per cent in two days. In Sofia, it pays to hang on to your hard currency.

But hang on to it tightly. Bulgarian thieves are no respecters of place or status. In the crypt of Alexander Nevsky cathedral, a colleague turned to find a woman rummaging in her handbag. And it was reported that an IMF negotiator, in town to help the government out of its economic crisis, had her bag snatched in a restaurant.

Dinner-table chatter still centred on an extraordinary second half in the Bulgarian cup final, a few days earlier, when the Levsky team, losing 1-0 to Slavia, walked off the pitch 15 minutes from time in protest at an alleged fix, leaving the crowd to chant "mafia, mafia".

A new interior minister had just been appointed to replace Lyubomir Nachev, who resigned after being filmed talking to contestants in a beauty contest when many felt he should have been investigating the shooting of three policemen by extortion suspects.

Such dark happenings, officials insist, rarely affect visiting business people. But petty crime clearly can.

The pace of reform has faltered since the heady days of the democratic restoration, but things are not all bad. Sofia's energetic mayor, Stefan Sofiansky, promised to do something about the dire, potholed state of its roads when spring came – and kept his word. But the city still wears a neglected look and, as summer arrives, again faces a water shortage. Last summer, supplies were often cut off for all but two hours a day.

The airport badly needs replacing or refurbishing, but according to Assen Dyulgeron, financial adviser to Sofia's municipal authority, land acquisition has been frustrated by arguments over restitution rights.

Buying a gift to take home can be tricky. The weekend I was there, an increase in interest rates to 108 per cent steadied the lev but sent the price for an amber necklace at the open-air Russian market from $40 on Saturday to $70 on Monday.

Buy a business contact a shot of Johnny Walker Black Label, say, and you cannot be sure of getting the real thing. One hotel manager told me: "Fortunately, they're such good copycats that only a true connoisseur can tell."

The flip side of all this is that hotel rooms are usually not difficult to find. The 450-room Inter-Continental (ask taxi drivers for the Vitosha, or they won't know what you mean), operates at about 40 per cent occupancy. It has a splendid sports centre, with a large swimming pool and exercise machines, and has five restaurants, including the only Japanese eaterie in the Balkans, and Window on Sofia, where diners are entertained by a young jazz trio that deserves a wider audience.

The 155-room Sheraton, in the town centre by the 4th century Byzantine church of St George, is 50 per cent full on average. On fine days its Wiener Café terrace is an excellent place for a light lunch.

In the five-star category, competition from Hilton has been delayed. Ground was broken for a new hotel but the project has gone no further. The four-star market remains largely untapped though two new hotels on the fringes of town, the Krankov and the Ambassador, have started to fill the gap.

The slow build-up of business activity in Sofia has limited the spread of up-market restaurants, apart from those in five-star hotels. One notable newcomer is 33 Chairs, named because that is the number of people it can handle. Popular with the diplomatic community, it has tables inside or in a lovely courtyard, but the cooking and service exemplify the uncertainties of an emerging free economy. Against that you would be hard pressed to spend more than £15 a head.

For all the country's problems, doing business in Sofia offers pleasant moments. When the sun shines, café society blossoms. An al fresco espresso can cost a mere 10p. Bulgarian wine has improved greatly. (In one shop I found Cabernet Sauvignon "bottled for Sainsbury's").

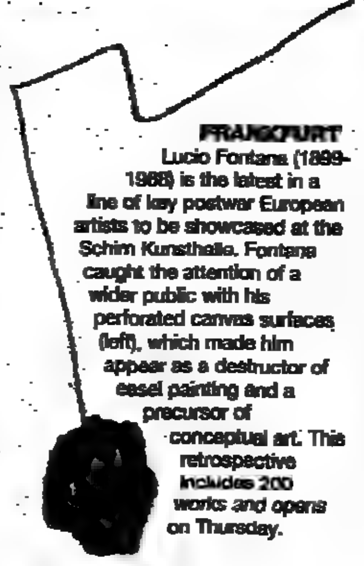
And if you are stuck there over a weekend in winter, the Inter-Continental can organise a day's skiing at nearby Vitosha, or more distant Borovets, with equipment and ski suit hire, lift pass and transport all included for $100 or less.

Roger Bray

ALDEBURGH
Hans Werner Henze's association with Britten, Pears and the Aldeburgh festival stretches back more than 40 years, and the festival is playing a prominent part in Henze's 70th birthday celebrations. The BBC Symphony gives the UK premiere of his "Appassionamente" at the opening orchestral concert on Saturday, and his chamber and vocal music is also well represented. The other programme feature is W.H. Auden (left), who worked closely with both Henze and Britten.

LONDON
Two contrasting artists of the postwar era are the subject of retrospectives this week, both opening on Thursday. The American Pop artist Claes Oldenburg, at the Hayward Gallery, is notorious for transforming the familiar into the realm of the extraordinary - in his "soft" sculptures and colossal monuments. The Tate Gallery offers a 70th birthday tribute to the British artist Leon Kossoff, best known for his portrayal of the changing face of London's urban landscape.

Alan Bennett's "Habeas Corpus" returns to London this week. A new production, directed by Sam Mendes, opens at the Donmar Warehouse on Wednesday. The cast includes Brenda Blethyn, winner of the Best Actress award at Cannes, Celia Imrie, and Imelda Staunton.



FRANKFURT
Lucio Fontana (1899-1968) is the latest in a line of key postwar European artists to be showcased at the Schirn Kunsthalle. Fontana caught the attention of a wider public with his perforated canvas surfaces (left), which made him appear as a destructor of easel painting and a precursor of conceptual art. This retrospective includes 200 works and opens on Thursday.

NEW YORK
A panoramic survey of African art, first seen at the Royal Academy of Arts in London, opens on Friday at the Guggenheim Museum. The earliest of the objects is more than one and a half million years old, but there are also works from this century. The exhibition will serve as the focus for a city-wide celebration of African culture.

Ingmar Bergman's staging of Molière's "The Misanthrope" is brought to the Brooklyn Academy of Music on Saturday by the Swedish Royal Dramatic Theatre.

PARIS
An exhibition of 20th century British sculpture at the Jeu de Paume puts the emerging talents of Damien Hirst and Rachel Whiteread in the context of older generations, represented by Henry Moore (20 works), Barbara Hepworth, Anthony Caro and others. Part of the show will consist of open-air works in the Tuileries. It opens tomorrow and runs till mid-September.

YORK
The York Cycle of Mystery Plays, adapted by Liz Lochhead, opens on Thursday at York's Theatre Royal. John Doyle directs.

CHICHESTER
Peter Ustinov appears in his own play "Beethoven's Tenth", at the Chichester Festival Theatre, opening on Thursday. John Neville co-stars.

SALISBURY
"After Extra Time" is the latest work of composer, pianist (and QPR supporter) Michael Nyman (right), premiered with his 12-piece band at the Salisbury Festival on Wednesday. The national tour takes in London (Festival Hall), Liverpool (Philharmonic Hall) and Birmingham (Symphony Hall).

Novel approach to classics

Jackie Wullschlager discusses what are proving to be successful transfers from page to stage

A new play leaves an auditorium empty these days, while a new adaptation of a novel, from Alan Bennett's *The Wind in the Willows* at the Olivier to *Wuthering Heights* in Eastbourne, packs a 700-seater every night.

This week, the novel-as-play stakes are raised. The most impossible book to dramatise must be *War and Peace*, which is previewing at the Cottesloe, and was sold out even before telephone bookings began. Another heavyweight, Thomas Hardy's *Jude the Obscure*, opens on June 10 at the Lyric, Hammersmith. Jane Austen's *Mansfield Park* is at the Chichester Festival, *Northanger Abbey* comes to Greenwich, *Lady Chatterley*, with nude simulated sex, has just ended at the Cockpit Theatre, and Cliff Richard is to star in *Heathcliff*, the musical, next year.

Can such ambitious adaptations work, and why do we love them so? Blockbuster adaptations, like the RSC's *Les Misérables*, are traditionally hits, but novels-as-plays have recently become a staple form of popular theatre. They have made the names of two of our most daring companies, Shared Experience (*Mill on the Floss*, *Anna Karenina*) and Method & Madness (*Emma*, *A Handful of Dust*).

Adaptations work on big stages or small, with large casts or tiny, with infinite doubling and tripling of roles, and so they have kept box offices happy across the country. They also celebrate our culture's new romance with the classics. "People like to be told stories, and there is something solacing about the 19th century – its novels have such wonderful, juicy stories," says Mike Alfreds, founder of Method & Madness and director of *Jude*.

Until Oscar Wilde in the 1890s, there were no important Victorian dramatists, and Alfreds' theory is that "a lot of novelists were playwrights *manqués*", crying out to be put on stage.

"They wrote drama that's read rather than drama that's seen – it's very visual, they describe the lighting, paint pictures of people, Dickens says things like 'Mr Guppy enters left'."

Alfreds is drawn to the richness and complexity of novels – "plays aren't like that" – and the opportunities they give for innovation. His *Jude* has a cast of four, and through close-ups of Hardy's sexual pairs distils the themes – "relationships: what is the best way of living together, should you get married or not, single parenthood" – which Alfreds feels give the novel resonance.

The key is to reinvent a book theatrically, rather than worry about the integrity of page-to-stage conversion. Novels-as-plays are an exciting instance of cross-fertilisation in the arts because theatre builds on the new sexiness of classics created by screen adaptations such as *Pride and Prejudice*, but stakes out its own territory.

Exciting cross-fertilisation: Martin Marquez and Abigail Thaw in a scene from *'Jude the Obscure'* by the Method & Madness company

Sharon Kean

Television thrives on nostalgia, costumes, spinning plots over many episodes. What makes theatre adaptations powerful are compression and emotional intensity. On television, says Helen Edmundson, who adapted *War and Peace* for Shared Experience, "you can just tell the story, but a play has to open the subject up, ask questions".

Sets are minimal. "No coaches or cannons, nowhere to hide," says Richard Hope, who stars as Pierre, "we ask the audience to bring their imaginations with them." Hope's challenge as the introspective, doubting hero is "to bring in someone's conscience in a theatrical way".

"My only criterion of whether a play works is if I feel emotionally engaged," says Edmundson. She picks novels "where characters are very deep and there's good psychology. If I find lots of secret desires and thoughts, I think, brilliant, I can find a way of physicalising them."

After Shared Experience's acclaimed *Anna Karenina* in 1992, Edmundson "madly" put *War and Peace* on a list of possibilities to discuss with Richard Eyre, director of the National Theatre, who seized on it. The pitfalls are huge: how to balance war, peace, the intricate plot, the essences of the three main families, the philosophy?

Edmundson's way in was to let a central theme – "how much we try to control our lives... how much we let life take us along, which leads to happiness, should we be looking for happiness at all?" – dictate choices of character, omissions, dramatic method. The focus on inner lives demanded some "scary devices". Onstage, Napoleon debates with Pierre on Tolstoy's life-and-death questions. A prologue set in today's Hermitage bids for political contemporaneity.

Sometimes the novel will not bend to modern forces. Edmundson

> *'We ask the audience to bring their imaginations with them'*

regretted that the gutsy, agonised heroines end up "absorbed in cosy domesticity".

"I tried to place the emphasis on the danger threatening the happy home, but this is Tolstoy's Natasha and Tolstoy's Maria, he can claim them whenever he wishes."

The chance to see a favourite novel, not just rethought for our times, but pushing out the limits of theatre, pulls audiences. Alfreds and Shared Experience's Nancy Meckler are innovators who, with troupes like Simon McBurney's Theatre de Complicite and Declan Donellan's Cheek by Jowl, have transformed British acting during the past 15 years by emphasising a more physical, less text-based, style of performance.

Recent, startling page-to-stage hits, such as Meckler's 1994 *Mill on the Floss*, belong to this trend. Their impetus comes in part from radical European directors such as Tadeusz Kantor, who favoured emotional expressionism over naturalism, and whose stocks-in-trade were adaptation, improvisation, a mix of text, dance, mime.

Can any novel work within this frame? I have yet to see a satisfying, live Jane Austen. "She is so popular it doesn't matter what you do," says Alfreds, who was dissatisfied with his own *Emma* last year ("we couldn't quite get the irony out on stage").

Hardys have been variable (one actor muttered about his dull career as "Wessex yokels, various"). Dickens' grotesques and melodramas are usually winners. The high sentiment of the Russian novels can transfer well. "Actors have their emotions near the surface anyway, like Russians, and are able to draw on that," suggests Hope.

War and Peace, a generation project which will not be done again for decades, will be the most trenchant test yet.

War and Peace **previews from June 7, opens June 25. *Jude the Obscure* opens June 10.**

Obituary

Tamara Toumanova

Tamara Toumanova has died at the age of 77. Known as the "Black Pearl" of the ballet, Toumanova was one of the "baby ballerinas" who created a sensation in the revived Ballets Russes companies of the 1930s. She was born in a railway train near Shanghai in 1919 when her parents were fleeing Russia.

Her great gift for dancing was revealed early on. At eight years old she made her début at the Paris Opéra in the children's ballet *L'éventail de Jeanne*, after studies with Olga Preobrazhenskaya.

She continued with this illustrious teacher until she was engaged by George Balanchine as one of the three child dancers who were the stars of the revived Ballet Russe de Monte Carlo which came into being in 1932.

Unforgettable in the roles Balanchine made for her there – notably in *Cotillon* – Toumanova followed Balanchine when he left the Ballet Russe to form Les Ballets 1933, for which company she danced further leading roles.

With the failure of this troupe after seven months, Toumanova rejoined the Ballet Russe and became one of its most celebrated artists during the 1930s.

She also danced in musical comedy, appeared with a rival Ballet Russe company and made her first film – *Days of Glory* – in Hollywood in 1943. In the following year she married its producer, Casey Robinson.

Thereafter Toumanova was to become a guest with several major ensembles.

Notable among these were Ballet Theater and the Paris Opéra – where she created roles for Balanchine and for Lifar (his *Phèdre*) – the Ballet of La Scala, Milan, and the Grand Ballet du Marquis de Cuevas.

With the Festival Ballet she made an unforgettable impression by her dramatic and technical bravura in an otherwise unremarkable staging of *La Esmeralda*.

Toumanova continued to make films – *Tonight We Sing* and *Invitation to the Dance*; Hitchcock's *The Torn Curtain* and Billy Wilder's *Private Life of Sherlock Holmes* – and also to tour with a concert programme in which she was partnered by Vladimir Oukhtomsky.

Toumanova brought to her every interpretation a magnificently assured technique, and a physical glamour typified by Arnold Haskell's description of her as the "Black Pearl".

After retiring from dancing, she continued to live in Hollywood with *her devoted mother. Her latter* years had been much shadowed by renal disease.

Clement Crisp

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

DANCE
Het Muziektheater
Tel: 31-20-5518117
● Nederlands Dans Theater I: perform William Forsythe's choreography Say bye bye, to music by Vater, and the world premieres of new works by Jiri Kylián and Paul Lightfoot. Part of the Holland Festival; 8.15pm; Jun 3, 5
EXHIBITION
Stedelijk Museum
Tel: 31-20-5732911
● Munch and After or The Obstinacy of Painters: late work by Edvard Munch (1863-1944) and work by contemporary artists who admired him or whose work he influenced; to June 9

■ ATHENS

CONCERT
Athens Concert Hall
Tel: 30-1-7282333
● Les Arts Florissants: with conductor William Christie perform Jean-Joseph Cassanéa de Mondonville's Grands Motets: Dominus regnavit, De profundis, In exitu Israel and Magnus Dominus; 9pm; Jun 4, 5

■ BERLIN

CONCERT
Deutsche Oper Berlin
Tel: 49-30-3438401
● Orchester der Deutschen Oper Berlin: with conductor Maxim Schostakovich and cellist Mischa Maisky perform works by R. Schumann and Shostakovich; 8pm; Jun 5
EXHIBITION
Berlinische Galerie - Martin-Gropius-Bau
Tel: 49-30-254860
● Anne Ratkowski - Eine vergessene Künstlerin der Novembergruppe: exhibition devoted to the work of the German painter Anne Ratkowski, a member of the Novembergruppe, a movement of Expressionist artists formed in Berlin in 1918. The display includes still lifes and portraits; to Oct 13

■ BOLOGNA

EXHIBITION
Galleria d' Arte Moderna
Tel: 39-51-502859
● Gilbert & George: an Anthology: retrospective exhibition devoted to the work of the British artist-duo Gilbert & George. The display includes some 100 large works from the 1970s to the present; to Sep 8

■ BRUSSELS

CONCERT
Palais des Beaux-Arts
Tel: 32-2-5078466
● Koninklijk Filharmonisch Orkest van Vlaanderen: with conductor Grant Llewellyn and violinist Christian Tetzlaff perform works by Mozart, Berg and Brahms; 8pm; Jun 6

■ COPENHAGEN

EXHIBITION
Nationalmuseet - The National Museum Tel: 45-33 13 44 11
● Sultan, Shah and Great Mughal: museum exhibits and photographs illustrating the religion, history and culture of the world of Islam; to Sep 30

■ DORTMUND

EXHIBITION
Museum am Ostwall
Tel: 49-231-5023247
● Gerrit Thomas Rietveld: retrospective devoted to the Dutch architect and designer Rietveld (1888-1964); to Jul 21

■ DRESDEN

OPERA
Sächsische Staatsoper Dresden
Tel: 49-351-49110
● Nabucco: by Verdi. Conducted by John Fiore and performed by the Sächsische Staatsoper Dresden; 7pm; Jun 4, 7

■ DUSSELDORF

EXHIBITION
Kunstmuseum im Ehrenhof
Tel: 49-211-8992460
● Otto Piene - Retrospektive: retrospective devoted to the works of the German artist Otto Piene (b. 1928). The display includes paintings, drawings, sculptures and inflatables – large sculptures filled with helium; to Aug 11

■ EDINBURGH

DANCE
Edinburgh Festival Theatre
Tel: 44-131-5296000
● Cinderella: a choreography by Matthew Hart to music by Prokofiev, performed by the London City Ballet and the Royal Scottish National Orchestra; 7.30pm; Jun 4, 5, 6 (also 2pm), 7, 8 (also 2.30pm)

■ LEIPZIG

OPERA
Oper Leipzig Tel: 49-341-1261261
● Die Zauberflöte: by Mozart. Conducted by Bareza and performed by the Oper Leipzig and the Gewandhausorchester; 7.30pm; Jun 5

■ LONDON

ART & ANTIQUE FAIR
Olympia Tel: 44-171-6033344
● The Fine Art and Antiques Fair: more than 130 dealers showing furniture, porcelain, ceramics and glass, watercolours, oils and old master drawings, clocks and barometers, silver, jewels, enamels, and textiles; from Jun 6 to Jun 16
CONCERT
Barbican Hall Tel: 44-171-6388891
● Royal Philharmonic Orchestra: with conductor Daniele Gatti perform works by Ravel, Hindemith and Brahms; 7.30pm; Jun 4
EXHIBITION
The Hayward Gallery
Tel: 44-171-9604242
● Claes Oldenburgh: an Anthology: around 150 sculptures, maquettes, drawings, notebook sketches and film of the American artist's work; from Jun 6 to Aug 18

■ LOS ANGELES

MUSICAL
Pasadena Civic Auditorium
Tel: 1-818-449-7360
● Ain't misbehavin': by Fats Waller. A new production of the Broadway musical; Tue - Sat 8pm, Sun 7pm, Sat, Sun also 2pm; from Jun 4 to Jun 9

■ MUNICH

CONCERT
Nationaltheater
Tel: 49-89-21851920
● Bayerisches Staatsorchester: with conductor Peter Schneider and horn-player Johannes Dengler perform works by Hindemith, R. Strauss and Brahms; 8pm; Jun 3, 4

■ NEW YORK

EXHIBITION
Brooklyn Museum
Tel: 1-718-638-5000
● The Art of Thomas Wilmer Dewing: Beauty Reconfigured: American artist Dewing (1851-1938), a key figure in the American "cult of beauty" at the turn of the century, was known for his paintings of women in interior settings and in atmospheric landscapes; to Jun 6

■ PARIS

CONCERT
Salle Pleyel Tel: 33-1 45 61 53 00
● Ensemble Orchestral de Paris: with conductor Armin Jordan and horn-player Radovan Vlatkovic perform works by R. Strauss; 8.30pm; Jun 4
DANCE
Théâtre National de l'Opéra - Opéra Garnier
Tel: 33-1 42 66 50 22
● Ballet de l'Opéra National de Paris: Petit's choreographies Rythme de valses, Camera Obscura ou l'amour est aveugle and Le Loup; 7.30pm; Jun 4, 5

■ STOCKHOLM

DANCE
Kungliga Teatern - Royal Swedish Opera House Tel: 46-8-7914300
● Romeo and Juliet: a choreography by Kenneth MacMillan to music by Prokofiev - Royal Swedish Ballet; 7.30pm; Jun 4, 6

■ VIENNA

CONCERT
Musikverein Tel: 43-1-5058681
● Ensemble Kontrapunkte: with conductor Peter Keuschnig, soprano Gabriele Fontana and baritone Peter Weber perform works by Mautner, Orff/Wanek, Françaix and Schoenberg; 7.30pm; Jun 5
● Ernst Kovacic: the violinist performs works by Bischof, J.S. Bach and Essl; 7.30pm; Jun 4
OPERA
Wiener Staatsoper
Tel: 43-1-514442960
● Il Barbiere di Siviglia: by Rossini. Conductor Asher Fisch and the Wiener Staatsoper; 7.30pm; Jun 4

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10.00
European Money Wheel

18.00
Financial Times Business Tonight

Michael Prowse · America

The debt timebomb

The US is better placed than its competitors, but still needs to ease the budgetary strains caused by an ageing population

The US is facing the worst debt crisis in its 220-year history. If nothing is done, the ratio of debt to gross domestic product will rise to 300 per cent or more, making the debt spike of world war two look insignificant. As the debt spirals upwards, foreign investors will dump US assets. Share and bond markets will crash, sending the dollar into a tailspin. And the real economy will enter a contraction of a duration and severity never previously experienced by Americans.

I found this chilling prognosis not in a racy Wall Street circular but in the latest economic report of the non-partisan Congressional Budget Office, an organisation not given to overstatement. The CBO does not expect such a catastrophe to occur, but it is evidently concerned that Washington policymakers are not yet focusing on the fiscal consequences of an ageing population.

The failure of Bill Clinton and the Republicans to reach agreement on balancing the budget by 2002 has prompted yawns rather than alarm because the debt threat seems to be easing of its own accord. The deficit is expected to drop to only $144bn this year – or 1.9 per cent of GDP, the lowest percentage of national income since 1979. If no further action is taken, it will drift higher in the next five years, but most economists expect it to remain at or below 3 per cent of GDP – a respectable performance by European standards.

The CBO, however, is worrying about what will happen after 2008, when baby-boomers start retiring. The drop in the birthrate and the increase in life expectancy will cause the ratio of workers to retirees to fall sharply – from about 4.8 in 1990 to 2.8 by 2030. This may not sound a lot, but it is enough to wreak havoc with the government's finances. The labour force will barely grow after 2010, reducing payroll tax receipts slightly as a share of national income. Meanwhile, outlays on pension and medical benefits will mushroom, reflecting both a larger recipient population and the rising real cost of these services.

The likely burden on the economy is impossible to gauge precisely because estimates of economic growth over long periods are highly uncertain. The CBO thus presents various "scenarios" which make different assumptions about the labour supply, the nation's capital stock and "total factor productivity" (output growth not attributable to growth of either capital or labour).

It also tries to assess the importance of negative "feedback" effects – for example the fact that high public deficits would crowd out private investment and raise interest rates. This would depress growth and cause even higher debt-to-GDP ratios than would occur in the absence of feedback effects.

However it manipulates the numbers, the CBO reaches only one conclusion: the promises implicit in existing entitlement programmes for the elderly simply cannot be met. Under almost any reasonable assumptions they would result in an unthinkably onerous federal debt. On a base scenario allowing negative feedback effects, the CBO reckons the budget deficit would rise to between 26 per cent and 37 per cent of GDP by 2030, depending on the growth of spending on other items, such as national defence. The federal debt would soar to between 300 and 400 per cent of GDP – a level of indebtedness far exceeding anything in previous US history, as the chart shows.

These are sobering projections, but they are not grounds for a loss of faith in the US economy. In the first place most other large countries are facing even more daunting fiscal challenges. By 2030 the elderly dependency ratio (people aged over 65 as a percentage of those aged 20-64) is expected to rise to 36 per cent in the US, against 21 per cent in 1990. But this compares favourably with estimates of an increase to 43 per cent in the UK, 49 per cent in Japan, and 54 per cent in Germany.

And the US's pension promises, although excessive, are less outrageous than those in most competitor countries which tend to have more generous welfare states. The International Monetary Fund recently calculated that relative to GDP, the present value of unfunded pension liabilities in the US is less than a third that in France, Germany and Japan.

The US also has the advantage of starting with the lowest ratio of public spending to GDP of any rich nation. Public debt spirals out of control in the CBO projections because of the effect of compound interest over long periods. The US could, if it chose, cope with the fiscal threat simply by raising federal taxes gradually.

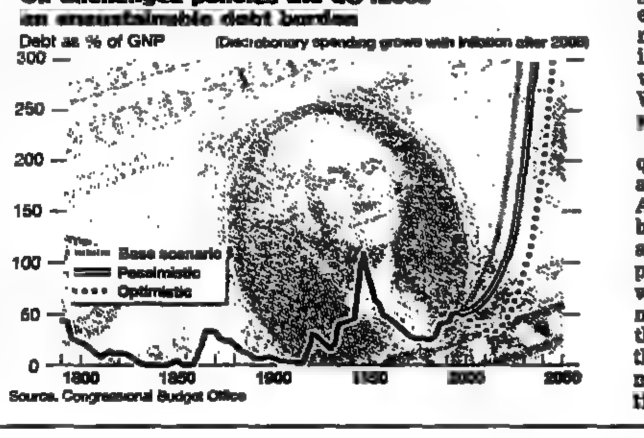
An increase in the tax burden from 20 per cent of GDP today to 28 per cent of GDP in 2050 would be sufficient to keep the budget permanently balanced. Yet even after a tax increase that most Americans would rightly regard as monstrous, the overall tax to GDP ratio would still be lower than it is today in France or Germany. The US, because of its past virtue, can thus absorb fiscal strains that would destroy other nations.

But its greatest advantage is that radical reforms, such as the partial or full privatisation of public pensions, will be easier to achieve than in Europe or Japan. Americans are instinctively more willing to consider free market alternatives to public programmes than their counterparts abroad.

The idea of letting young people manage their own private pensions is already winning support among both Republicans and Democrats. There is also agreement in principle that public healthcare schemes should adopt the "managed care" techniques that have greatly reduced the growth of medical costs in the private sector. The US is thus likely to find ways to curb growth of spending on the elderly – and thus avoid the need for swingeing increases in taxation – regardless of which party controls the White House over the next 50 years.

What is less clear is how quickly the US will move to avert this long-term threat. Acute fiscal strains will not become evident for more than a decade – a lifetime for many politicians. The point that watchdogs such as the CBO need to hammer home is that the longer action is delayed, the greater will be the ultimate cost of defusing the debt timebomb.

On unchanged policies the US faces an unsustainable debt burden



Source: Congressional Budget Office

·LETTERS TO THE EDITOR·

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US not weakening its commitment on trade

From Mr Erik R. Olbeter.

Sir, In your May 7 and May 28 editorials, "World trade at risk" and "WTO at sea", you question the US commitment to free trade and cite the recent US balking at the telecom negotiations as proof. While the US did refuse to sign the proposed World Trade Organisation accord, I disagree with your assertion that this action represents a "fundamental weakening of US commitment to the multilateral trade system".

On the contrary, the US remains the champion of free trade, as demonstrated by the US position in the WTO's negotiating group on basic telecom (NGBT).

At the onset of the negotiations, the US led the charge for open competition by offering to liberalise completely its market. However, more than two-thirds of the offers made overtly restricted foreign participation in domestic markets. While some proposals were "better than expected", the majority were clearly protectionist.

The reasons the US rejected a deal that promised minimal liberalisation are twofold. Without reciprocity, closed markets mean a continuation of the spiralling US trade deficit in telecom services (currently $4bn), while placing US companies at a disadvantage in international markets. Furthermore, signing an accord at the WTO would prohibit the US from leveraging its market to encourage further liberalisation.

On a more principled level, why should any country sign a global accord when more than two-thirds of the negotiating parties have not committed to true liberalisation? Critics of the US action at the NGBT are better served focusing on the "free rider" problem in the WTO than attacking a member eager for real competition.

If market opening offers do not improve significantly in the next ten months of NGBT negotiations, countries that are liberalised-minded such as the US should again reject them, and this time opt for bilateral agreements.

Undoubtedly WTO advocates will push for an agreement – no matter what the impact on competition.

Although bilateral deals are not the "best" solution, they do promote competition and protect consumers from price gouging at the hands of foreign monopolies.

Erik R. Olbeter,
director of telecom projects,
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US

Create code

From Mr Walter Grey.

Sir, Samuel Brittan's assertion (Economic Viewpoint, May 23) that "if the Maastricht criteria for monetary union and the proposed European stability pact did not exist, they would have to be invented" may enrage some but should encourage others – like the International Monetary Fund.

If, as he pointed out, the IMF is concerned about bulging budget deficits and mounting debt burdens, it could take a leaf out of the Maastricht book and draw up a general code of economic practice for the guidance of all member states. In the light of agreed criteria, each country's performance could then be monitored and critically assessed.

Besides helping to avert Mexico-type financial crises, this could lead to a gradual improvement in economic management standards, to the benefit of domestic and international stability. It is a cause in which the UK, an IMF founding father and ostensibly a reformed character, should play a leading role.

Walter Grey,
12 Arden Road,
Finchley, London, UK

Reward for the fight against apartheid

From Mr Chris Jones.

Sir, If President Mandela truly wishes to be "doggedly loyal to those who contributed to the fight against apartheid" ("Another burden to carry", May 21), the South African business community should be the first to be rewarded. It was economic growth, not protest politics, that played the vital role in destroying the National party's feudal fantasies and creating post-apartheid South Africa.

As far back as the second world war, this path was clear: the pass laws had to be suspended in order to mobilise black labour to meet wartime demand. The urbanisation that followed destroyed apartheid faster than it could be created: during the Verwoerd years the number of blacks living in "white" areas grew year by year. At Verwoerd's assassination in 1966, "white" South Africa enjoyed a black majority, and the need for a skilled labour economy would soon force open the higher education system to blacks. The repression of the Vorster years, which fuelled the protest movement, was a symptom of the failure of apartheid, not a sign of its triumph.

The problem, I fear, is not that President Mandela and his advisers don't understand this historic process, but that they instinctively feel that narrow political loyalties and a continuation of anti-apartheid rhetoric will bring them the greatest rewards in terms of power and privilege.

Chris Jones,
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Hertfordshire AL3 4JB, UK

Folly if barriers are created in UK rugby

From Mr Tony Kennett.

Sir, Keith Wheatley raises important issues in "Rugby's small fry may rebel" (May 28). Obviously I cannot comment on behalf of the other 19 senior English clubs but I am sure they will to a large degree share our views at Blackheath.

It is generally acknowledged that Blackheath is the oldest open rugby club in the world. Since our foundation in 1858, we have prospered and our success today is due in no small measure to one key fact.

We have always recognised and valued the important role which local clubs in the south-east corner of England have played in our success. The fact that Blackheath has supplied more internationals than any other club is a tribute to this close relationship.

What does provide cause for alarm in the new world of professional rugby union is the avowed intention of some of our fellow top 20 clubs to abandon their junior teams. It will be folly beyond belief if the top clubs seek to establish barriers between club players and professional players.

Rugby union has thrived and prospered because of the informal structure which links local clubs to national clubs. Long may this continue.

Tony Kennett,
chairman, development and funding committee,
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Blackheath, SE3 8SR, UK

FT Interview · Donald Johnston

Global free-trade mission

The new secretary-general of the OECD tells Gillian Tett and Guy de Jonquières about his plans for the organisation

Mr Donald Johnston, who takes over today as secretary-general of the Organisation for Economic Co-operation and Development, has lost no time taking executive decisions. One of his first has been quietly but firmly to spurn an OECD offer to pay to have his Paris residence redecorated.

Such thrift is in character with the 60-year-old former Canadian budget controller's unpretentious style. But it also recognises that the OECD, long known as the "rich man's club" of industrialised nations, has fallen on hard times and must find new ways to justify its keep.

During his five-year term Mr Johnston faces a daunting task. While wrestling with a tight budget squeeze, he needs also to define – and sell to the OECD's 27 members – a fresh mission for an organisation that is in danger of being sidelined by events.

"The OECD is in a transitional period, because the world has changed dramatically. But there has not been a conscious decision by the members about what that implies," Mr Johnston says.

In part, the organisation is a victim of its success since it was set up in the 1960s. Its role as an economic bulwark against communism was made obsolete by the fall of the Berlin Wall, while the importance of the sound fiscal management and micro-economic reform it has long preached is now widely accepted.

At the same time, the OECD risks losing influence as a think-tank, talking shop and discreet negotiating forum for the most powerful economies, because the world's economic centre of gravity is shifting increasingly towards Asia and other fast-growing regions.

Yet almost all the OECD's members are European and North American countries. Japan remains its only Asian member, although South Korea is negotiating to join.

Mr Johnston's big idea for resolving these dilemmas is to turn the organisation into a vehicle for promoting global free trade, while helping member governments cope better with the domestic political consequences of remorseless international competition. He says he is increasingly alarmed by rising protectionist pressures in the west. But as a former politician – unlike his recent predecessors – he also understands the difficulty of maintaining support for free trade among voters who feel threatened by it.

"Everyone says there is no question that there is a net gain from free trade," he says. "But the question men and women on the street ask is: what will it do for me, for my kids, for my husband who has lost his job?"

Mr Johnston is equally worried by the "real menace" of regional trade groups such as the North American Free Trade Agreement. He fears businesses will come to view these groupings as alternatives to the multilateral trade system, leading to fragmentation of the world economy.

To avoid that risk, he says, government leaders need to dedicate themselves as enthusiastically to strengthening multilateral principles as to building regional groupings.

In particular, World Trade Organisation members should set a timetable and a deadline for achieving global free trade.

The OECD, he argues, can play an important role by helping governments persuade sceptical electorates that liberalisation is good for them, and by helping their economies to restructure.

"In North America, for example, many communities are almost one-industry communities that will be adversely affected by free trade," Mr Johnston says. "The question is how adjustment is going to occur and who will be the net winners."

Mr Johnston has two cards to play. One is the OECD's credentials as the only international forum in which governments regularly exchange views on almost every type of economic activity, from pensions to tourism.

The other is its capacity for thorough and often innovative policy analysis. Mr Johnston underlines the importance of its extensive work on labour markets, which has found that deregulation and flexible working practices are essential to create new jobs.

He says the OECD's expertise in this area will be particularly valuable in underpinning free trade, because unemployment is driving the protectionist backlash.

However, Mr Johnston's ambitions extend beyond helping tired old economies deal with painful change.

He also wants the OECD to take a lead in promoting liberalisation and reform in the rest of the world.

But here the organisation's exclusivity poses a problem. Though trade with emerging markets is vital for western growth, Mexico is the only developing country to belong to the OECD. Hungary and the Czech republic recently entered, and Poland is expected to do so soon. Last month, Russia startled OECD ministers by applying to join.

Mr Johnston is wary of enlarging membership too fast. Instead, he hopes the OECD can build closer ties with non-members and promote global free trade by putting its analytical resources at the service of the WTO.

The thinly-staffed WTO could certainly use more research capacity. But any suggestion that the OECD might become its think-tank would raise developing countries' hackles.

Most view the Paris-based body as a vehicle for the narrow interests of the older industrialised countries. Nor are they likely to be reassured by the fact that Mr Johnston owes his new job to strong support from the US, traditionally the OECD's biggest paymaster.

Sensitivities have already been inflamed by US-led negotiations in the OECD to formulate international rules for direct investment. Developing countries fear that OECD members will attempt to impose their eventual agreement on the WTO without consultation.

Mr Johnston blames the ill-feeling on mismanaged communications but appears still unclear about how to patch up the argument or to persuade poor countries to accept his organisation as an ally.

His first priority, however, must be to rally OECD governments around a coherent vision of the organisation's longer-term role.

That will be made no easier by the challenge of reaching decisions as membership grows larger and more diverse.

Mr Johnston hopes governments will modify the current consensus principle, which allows every member a veto. But he admits: "I am not sure that members have a unified view or that anyone has any easy answers."

His success in finding answers and putting them into effect will be the toughest test of his leadership. It may also determine whether the OECD has a future after he steps down.

Reuter

Donald Johnston: wants to promote reform in rest of world

FINANCIAL TIMES

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Monday June 3 1996

Peace and Netanyahu

When Israeli voters first rejected Shimon Peres, in May 1977, and elected the late Menachem Begin, they were widely held to have voted against peace. Yet within two years Begin was to sign a peace treaty with Egypt.

That precedent must temper reactions now to the victory of Benjamin Netanyahu. His election campaign mixed hawkish rhetoric with signs of awareness that the Israeli public broadly supports the "peace process", and that Israel cannot completely ignore international opinion. He must know, in particular, that much of Israel's recent prosperity derives from the perception of foreign investors and trading partners that the Arab-Israel conflict is drawing to a close. If that perception falters so will foreign investment in Israel, and Israeli penetration of some important emerging markets, notably in south-east Asia.

Mr Netanyahu's parliamentary majority, and therefore his government, will be full of hawkish figures. But, as Israel's first directly elected prime minister, he should enjoy greater freedom from parliamentary control, and therefore greater authority over his colleagues, than many of his predecessors. Also, he inherits treaties and commitments to Israel's neighbours which he says he will respect. The peace process should therefore go on, at least in form.

That process was by no means assured of success even if Mr Peres had been re-elected. He had pledged to make no concessions on the status of Jerusalem, and indeed it is hard to imagine any Israeli government renouncing sovereignty over the thick belt of Jewish housing estates which now surround the city, in what is still legally Arab territory. Mr Peres had also alienated many Palestinians, including crucially some Israeli Arab voters, by his tough response to the Hamas terrorist attacks in February and March, and by his savage and indiscriminate reprisals for attacks by the Hizbollah resistance movement in southern Lebanon in April.

By such methods Mr Peres sought to retain power, instead of telling the electorate, as he should have, that since Hamas and Hizbollah were out to destroy the peace process Israel's best response was to press on with it unflinchingly. Governments seldom win elections by stealing the opposition's clothes. Many Israeli voters must have felt that, if a tough anti-Arab policy was called for, Mr Netanyahu rather than Mr Peres was the man to carry it out.

Mr Peres's defeat is also a defeat for the US, which sought to help him by offering uncritical support. The Clinton administration now has to establish good relations with a new Israeli leader who has good reason to distrust it, but also has to undo the damage done to its allies and protégés in the Arab world. Many of these, having invested heavily in the peace process, are now badly compromised in the eyes of their own public.

With his own re-election in mind, Mr Clinton will no doubt give priority to the former of these tasks, at least until November. But he should at least hold Israel to its existing commitments, including the withdrawal of Israeli troops from Hebron by mid-June and the inclusion of Jerusalem in the agenda of the "final status" talks which began last month. If Mr Netanyahu's first act as prime minister is to renege on these, he will indeed be serving notice that his victory is a blow to peace.

Year at the Bank

James Wolfensohn has been president of the World Bank for a year. He took on an institution crying out for leadership and a cause that needed advocacy. He has exploited his charm, energy, enthusiasm and contacts to provide both. Doubts remain. On balance, however, the report card on his first year is favourable.

Mr Wolfensohn inherited a demoralised institution under attack from both the socially concerned left and the free-market right. As a publicly supported financial intermediary, its raison d'être had been undermined by the growth of private finance. Net lending was stagnant. The ability to provide concessional assistance for the poorest of its clients was under threat.

Against this background, Mr Wolfensohn has at least three big achievements to his credit.

First, he has defended the bank's role as a public development institution. Just as governments play a central role in creating the conditions for progress, so an international agency has a valid role in supporting them.

Second, he has greatly improved the bank's image and external relations, winning at least the respectful attention of its critics. He has, as a result, secured renewed support for the International Development Association, the Bank's soft lending arm. He has also won plaudits for his willingness to tackle the burden of debt owed to multilateral institutions by some of the poorest developing countries.

Third, he is trying to change the culture of the bank, to orient it towards results, towards individual performance and towards meeting the demands of clients. He has recognised that the bank was too inward-looking and bureaucratic. He has also understood that many of its clients have a choice. They will come to the bank if it offers what they want, not what it thinks they need.

Yet questions remain. This is partly because it will take years before the effects of his actions become clear. To an extent, they never will, since the bank provides just a few ingredients of development. It is also because there are doubts about his capacity to choose between alternatives, to manage complex internal changes and to impose coherent strategic purposes upon the energies he has released.

Yet Mr Wolfensohn deserves the benefit of the doubt. He understands the importance of economic development. He realises that the bank's credibility depends on its making a difference – and being seen to do so. What he has achieved thus far justifies at least the hope that he will achieve the revitalisation he seeks.

Sinn Féin's move

There is always a risk that elections in Northern Ireland will polarise opinion, squeezing the moderates in nationalist and unionist communities alike. The strong showing of Sinn Féin and of Mr Ian Paisley's Democratic Unionists in the poll for the new Northern Ireland Forum reflect that danger. At first glance, the results appear to strengthen the relative position of Mr Gerry Adams, the Sinn Féin president, and to weaken that of Mr David Trimble, the leader of the mainstream Ulster Unionists.

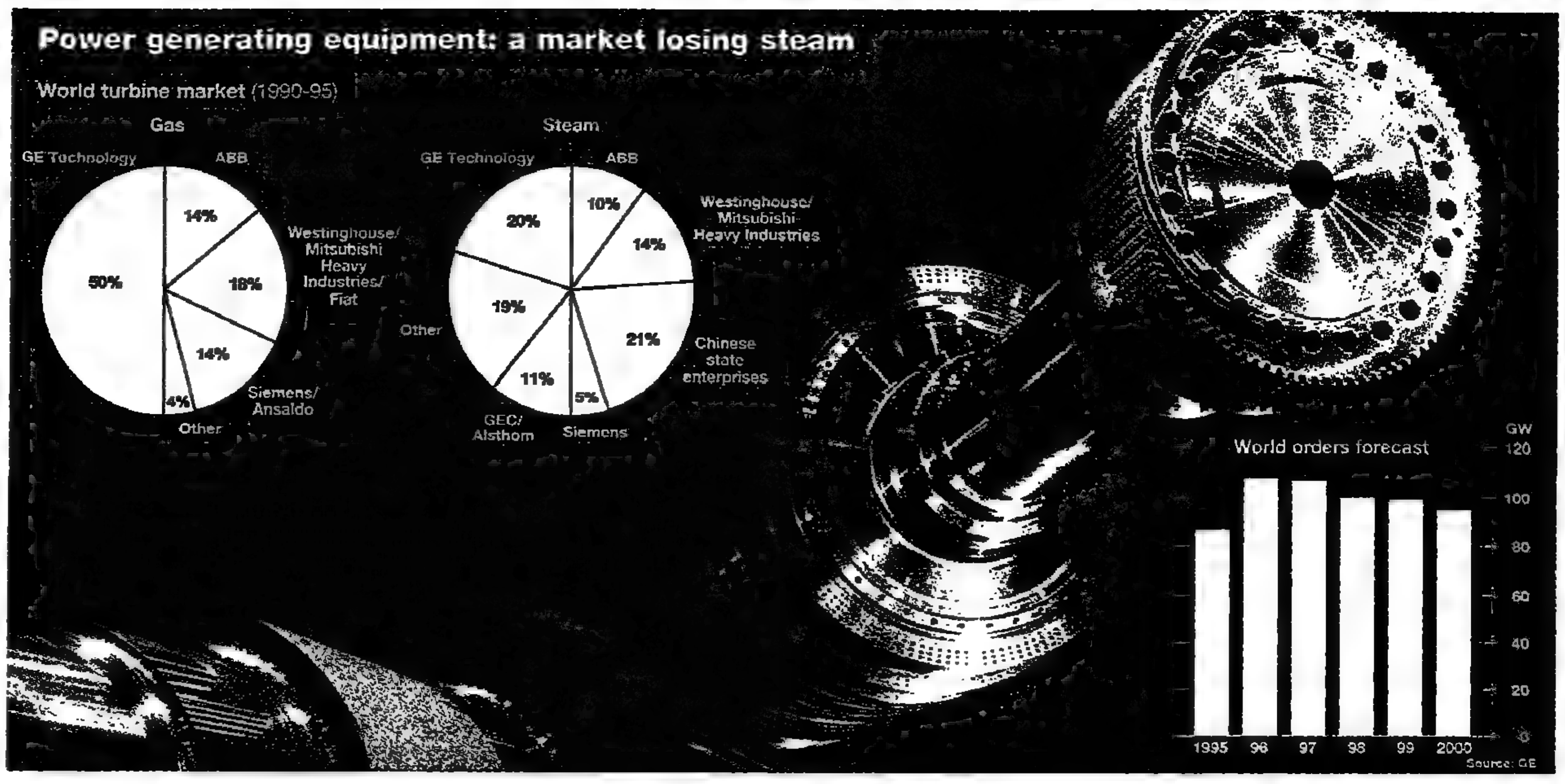
But these elections were a means to an end rather than an end in themselves. The new Forum has no real powers. It is designed instead as a gateway into the all-party talks due to start on June 10. All those committed to peaceful efforts to build a new constitutional settlement in the province are assured of seats at the negotiating table.

For the moment, this must exclude Sinn Féin. Unless and until the IRA restores its ceasefire the London and Dublin governments are rightly determined to bar its political wing from the talks. In spite of Sinn Féin's 15 per cent share of the vote, the Republican movement cannot claim a mandate from the ballot box until it puts aside its Armalites.

Mr Adams will continue to argue otherwise. He has suggested that Sinn Féin is an organisation distinct from the IRA. The reality is that they are inextricably linked, with the military commanders firmly in charge. If not, Mr Adams would secure a seat at the table simply by denouncing all those who support violence.

It is reassuring that on this central condition for entry to the talks Mr John Bruton, the Irish prime minister, is as robust as his British counterpart Mr John Major. Their two governments, however, have still to resolve some remaining differences if the negotiations are to start on time. These concern the remit for a special sub-committee which will deal with arms decommissioning and the role to be played in the talks by Mr George Mitchell, the former US senator who produced an independent report on the weapons issue earlier this year.

Dublin is anxious that, in the event of an eleventh-hour IRA ceasefire, the talks must not be derailed at the outset by wrangling over arms. London is understandably sensitive to the demands of unionists that some weapons must be destroyed during the negotiations. The two governments must quickly bridge these differences. Then it will be for Sinn Féin/IRA to show whether it shares the aspirations of the vast majority in Northern Ireland who voted last week for peace.



Under pressure to get together

Talk of further consolidation in the world power engineering industry is in the air after a disappointing start to the 1990s, says **Stefan Wagstyl**

The 1990s have gone seriously wrong for the world's power engineering companies. What was widely expected to be a decade of expansion has turned into a long war of attrition.

The prospect of supplying power stations to China and other developing countries, combined with anticipated business from new, independent power producers in the developed world, had leading electrical engineering companies working overtime to expand capacity.

But they moved much faster than their prospective customers. The forecast flood of orders has come more slowly than most manufacturers expected, leaving the industry locked in a ferocious price war which shows little sign of ending.

Last year, Westinghouse of the US, one of the top six which dominate the market, posted a $207m loss in its power systems division, including write-offs. The other five integrated manufacturers – the US's General Electric, ABB, the Swiss-Swedish group, Siemens of Germany, GEC Alsthom, the Anglo-French company, and Mitsubishi Heavy Industries of Japan – saw their margins in power engineering severely squeezed.

The financial results are particularly galling because in other respects the manufacturers are performing better than ever. Companies which once did business in protected national markets in cosy agreements with state-owned utilities have in the past 10 years been forced to compete more aggressively with each other. The quality and reliability of their equipment has been transformed and manufacturing costs have fallen by up to 50 per cent in a decade. But still profits are hard to come by.

After a 30 per cent fall in prices since 1993, the makers hope the market will stabilise. But it is more a hope than an expectation. As Mr Randy Zwirn, chief operating officer of Westinghouse's power generation business, says: "The way we have to run this business is to assume prices will keep falling."

The manufacturers are reacting with cost reductions, including job cuts and closures. This year, Westinghouse shut a generator plant employing 650 at Pensacola, Florida, and moved production elsewhere. Siemens has cut capacity in newly-acquired east German plants.

At GEC Alsthom, Mr Pierre Bilger, chief executive officer, says: "We anticipate a period of cuts as a consequence of market conditions."

The key question is whether the pressures will be enough to force the industry to consolidate. The last big mergers in the late 1980s saw the birth of ABB, from Asea of Sweden and Brown Boveri of Switzerland, and the formation of GEC Alsthom, from the energy and transport interests of the UK's GEC and France's Alcatel Alsthom.

Today, industry speculation focuses on Westinghouse, which last year dramatically changed direction with the acquisition of CBS, the broadcasting network. Westinghouse executives admit the company's traditional manufacturing businesses, including power and nuclear energy, sit uneasily alongside its glamorous new interests.

Westinghouse denies it is planning more big disposals following the sale of its defence business this year. But as Mr Zwirn says: "We are not trying to sell our business but you can never say never."

Rivals believe disposal may not be so far away. A senior European industry executive says: "Westinghouse has got to be the top candidate for a sale."

Ironically, Westinghouse has been a significant contributor to the industry's expansion. After years of neglect, the company invested heavily in power, renovating its range of traditional steam turbines for coal-fired plants and entering the fast-growing new market for gas-fired turbines. With the help of an overhaul of its factories and an alliance with the UK's Rolls Royce, which provided gas turbine technology, Westinghouse made rapid inroads into the market.

Its move coincided with an expansion into eastern Europe by ABB, which bought low-cost production bases in Poland, the Czech Republic and elsewhere. GE, meanwhile, increased by 20 per cent the capacity of its modern gas turbine factory in Greenville, South Carolina. According to GE, while steam-turbine manufacturing capacity stayed unchanged at about 70,000MW a year, gas turbine capacity rose 70 per cent in 1990-94 to 36,000MW.

Gas turbine sales also grew rapidly, but not fast enough: only about 30,000MW were sold last year. Companies leap-frogged each other with price cuts to secure orders.

In developed countries, manufacturers hoped that electricity liberalisation, notably in the huge US market, would produce orders from independent companies challenging the old utilities. But after a flurry, orders slowed as electricity companies realised the extent to which deregulation would force existing producers to become more efficient and cut power prices.

Plant manufacturers expect little recovery in business before the industry finishes restructuring to cope with its new competitive environment – perhaps not before the year 2000. Mr Adolf Hüttl, a Siemens board member, says: "The biggest question mark in the industry is the future of US power plants."

As for nuclear energy, the prospects for new business are even bleaker. The last three plants to be built in western Europe and north America have recently come on stream (including the UK's Sizewell B) and there are no more on the order books. Only east Asia offers possibilities with Japan, South Korea, China and Taiwan planning more nuclear plants.

In the developing world, there is no shortage of demand but a great shortage of funds, even in countries such as China where economic growth is rapid. Projections of developing countries' electricity requirements suggest the world's installed power plant capacity might need to grow 60 per cent by the year 2010 – which means 1,750,000MW of orders for equipment makers. Manufacturers can even today collect preliminary proposals for at least 1,000,000MW-worth of schemes in China, India, Indonesia and other developing countries.

But the problem for manufacturers is deciding which plants will be built. As Mr Ron Pressman, vice-president of marketing at GE's power systems division, says: "The challenge is to screen the real projects from those based on a hope and a prayer."

Mr Pressman estimates that a private sector project in a developing country can take seven years to bring to fruition. As the charts show, GE expects the slow completion of developing world schemes to keep the power engineering market flat over the next few years.

Delays in the $2.5bn power plant under construction in India by a consortium led by Enron, the US energy company, highlight Mr Pressman's point. Although the scheme for Maharashtra state was earmarked by Delhi for rapid approval, it took two years before contracts were signed. Soon after, the Maharashtra state government changed and the project had to be renegotiated. Now that the central government is in turmoil following the recent general election there is still no final word on the renegotiated scheme.

In China, approvals come faster. But the scale of the market has encouraged every big manufacturer to bid for business, driving prices down. Also, Chinese enterprises have imposed other tough conditions, including some that oblige manufacturers to transfer technology and carry out an ever-increasing share of work in China. For example, GEC Alsthom must transfer know-how for steam turbines under the terms of a $2bn contract for expanding a nuclear plant it built at Daya Bay near Hong Kong.

Under competitive pressure, the shape of the industry is changing. Whether or not Westinghouse sells its power business, the industry is likely to consolidate further, principally through alliances and acquisitions to share development costs and secure low-cost production centres in developing countries.

For example, ABB's network in eastern Europe and the former Soviet Union, which employs over 30,000 of the group's 211,000 staff, is growing at the rate of an acquisition a month. The portfolio includes a switchgear factory in a Bulgarian village and a Ukrainian plant making missile control systems which ABB will convert to industrial use. GE is busy tightening its links with Italy's Nuovo Pignone, a diversified turbines and compressors group, where it bought control in 1994. Westinghouse last year beat rivals to a joint venture with Shanghai Electric Corporation, China's biggest power plant maker, in which it is investing $100m. Mr Zwirn of Westinghouse says: "The massive costs of new projects mean we need more co-operation."

Meanwhile, manufacturers are forging closer financial ties with customers, notably investing in private power stations – in effect putting capital into their customers' projects. Siemens estimates it has invested in 30 per cent of the projects it has on its order book. Mr Hüttl says: "If we don't invest we don't get the business."

Manufacturers are also putting increasing emphasis on after-sales service, in an effort to recoup low margins on new projects with service revenues. At GE, for example, service last year accounted for two-thirds of the $4bn turnover in power – and an even higher (undisclosed) share of profits.

The all-round skills needed to compete simultaneously in building, alliance-making, financial investment and servicing gives enormous advantage to the big integrated companies. The time when this battle of the giants is resolved is fast approaching. As GEC Alsthom's Mr Bilger says: "The number of players is already low, so future regroupings will be harder to do than before. But in five years the industry will be quite different."

· OBSERVER ·

Picking up the threads

■ Well-heeled investment bankers on Wall Street may not think about it often, but Lehman Brothers would not exist without a dash of southern German wanderlust blended with a spot of Deep South enterprise. It was in the 1840s that Henry, Emanuel and Mayer Lehman left Rimpar, near the Bavarian town of Würzburg, and fetched up, a shade improbably, in Montgomery, Alabama, to found a dry goods store to serve the bustling cotton trade.

Part of this tortuous route into investment banking – the move from dry goods to Wall Street was made in the 1880s – is now being retraced. A bunch of Lehmans, who have long since shed their connection with the bank, are descending on Rimpar later this month, at the invitation of the mayor. Headed by John Loeb, former ambassador to Denmark and a great-grandson of one of the brothers, the delegation will be there for an exhibition about the family and the unveiling of a plaque on the original Lehman house. Sir William Goodhart, the British QC, who is Loeb's cousin, will be showing up.

Today, there are no relatives left in Germany – many having perished during the Nazi era, including Eva Lehman Thalheimer, who was killed at the Treblinka concentration camp. However, her first cousin, the late Henry Lehman, governor of New York during the depression and the second world war, helped some 65 other family members flee the Nazis.

So why is Lehman Brothers not making something of this renaissance of interest in its founders' birthplace? Well, when there's a Robert Lehman wing in the Metropolitan Museum of Art – donated by the man who led the Wall Street firm for 45 years until 1969 – a plaque somewhere in Bavaria probably doesn't do much for the image.

Sum problem

■ KHD teeters on the edge of bankruptcy. And Deutsche Bank, Germany's biggest bank, and not very proud owner of 47.7 per cent of the company, comes over all shy once again.

The terminally unchatty bank was unable even to confirm that KHD's supervisory board was holding a meeting last week. Odd that – given the board is chaired by one Michael Endres, himself a board member of Deutsche. And where did the get-together take place? Yep, the bank's own headquarters in Frankfurt.

One of the few things Deutsche is prepared to give away concerns the number of banks in the lending consortium – 60, it says. KHD gives a figure of about 45 – and appears to be right. Ah well, who said banks could count?

Turning turtle

■ Surely it was only last month that President Glafkos Clerides of Cyprus was sounding off about the evils of unrestrained tourist development? He was addressing a gathering of Greek Cypriot businessmen, and the thrust of the speech lay in the need to preserve the island's natural resources for future generations.

Nothing surprising in that – tourism accounts for one-fifth of the Greek Cypriots' income these days, and there are precious few bits of unspoiled coastline left as it is. Still, his words may have come as a bit of a surprise to executives from Thanos Hotels, owned by foreign minister Alecos Michaelides and his family. The Clerides cabinet granted Thanos a special dispensation to build a 300-bed luxury hotel on the Asprokremos beach in the Akamas peninsula – about the last undeveloped chunk of southern Cyprus. The project is opposed by environmental groups, who complain that bright lights and disco music will disturb the nesting marine turtles.

Nor is it just the greens. ETEK, the Greek Cypriot technical chamber, has decided to take the Clerides government to court – for allowing Thanos's new hotel to cover more of the site than it should under Akamas zoning rules.

Michaelides points out, a trifle defensively, that the cabinet relaxed zoning rules for other hoteliers without triggering any comeback, let alone a lawsuit from one of the its advisory bodies. Anyway, the last thing he needs are any distractions – now that he is so tied up with promoting Cyprus's bid to join the EU.

Brush with poor

■ It was the perfect photo-opportunity – the human face of the International Monetary Fund, in the shape of Michel Camdessus, wrapped in overalls and helping to paint the exterior of a small house in one of Lima's poorest shanty-towns. And the IMF's managing director drew enthusiastic applause from the locals – even if they had somehow been led to believe it was the boss of the World Bank they were expecting.

Peru's increasingly populist president, Alberto Fujimori, has used the whirlwind visit to refocus attention away from Peru's ominously large external debt and on to the internal, "social" debt his country has with its poor. If that message hadn't got through to the IMF, next time Camdessus came to town, Fujimori warned, he would find himself visiting 10 hillside shanty-towns, instead of a mere three. Not often the threats are issued that way round.

The Financial Times

100 years ago

The Presidential Campaign

Washington:- The opponents of Major McKinley state that if he be nominated by the Republican Convention as a candidate for the Presidency of the United States, the result will be that the actual election of the President will be thrown upon Congress. A careful estimate shows that in this event 27 out of 45 states will vote in favour of a Free Silver candidate, whoever he may be. It is asserted that the Silverites have adopted a plan to secede both from the Democratic and Republican conventions unless each platform declares in favour of silver.

[William McKinley became the 27th president of the US in 1897]

50 years ago

U.S. Loan to France

Paris:- M. Leon Blum, French Ambassador Extra-ordinary, told a press conference here that "no pressure was exerted, or conditions of any kind – civil or military, political or economic – were requested by the Americans" before the conclusion of the Franco-American loan agreement. M. Blum returned here from Washington after concluding an agreement for a £342,000,000 U.S. loan to France.

FINANCIAL TIMES
Monday June 3 1996

Renewed Chechnya fighting puts Yeltsin's pre-poll pledge at risk

By Chrystia Freeland, recently in Grozny

One of Russian president Boris Yeltsin's most daring pre-election promises threatened to go up in flames yesterday when fighting broke out in Chechnya despite a ceasefire which formally went into effect on Saturday.

Four Russian soldiers were killed and at least five others injured when their tank ran over a land-mine yesterday in the Chechen capital Grozny.

On Saturday, Russian forces and Chechen separatists fought pitched battles in the contested south-west corner of Chechnya.

The fighting threatens to discredit Mr Yeltsin's claim last week, on a lightning visit to Chechnya, that the war was won.

The ceasefire agreement, signed in a high-profile ceremony in the Kremlin last week by Russian officials and rebel leaders, was seen as a brilliant piece of campaigning by Mr Yeltsin, who faces a strong challenge from communist rivals before the June 16 presidential poll.

But now that it has been violated just hours after coming into effect, the pact could seriously tarnish Mr Yeltsin's political image.

Over the weekend in the hills of Chechnya, separatist field commanders, believed to be crucial to any lasting peace, were sceptical about the ceasefire and warned that their commitment to independence had not wavered.

"If I speak the truth, I do not believe that Yeltsin will keep his word," Mr Doku Makhalev, the bearded commander of separatist forces in south-west Chechnya, said, cradling a Kalashnikov in his lap as he sat in the courtyard of his village home in Gekhi.

To the sound of gun battles in the nearby forest, Mr Makhalev said he and his men would abide by the ceasefire unless they were attacked, but in a sentiment echoed by many Chechens, he warned that the Kremlin meeting last week had not swayed the rebels from their commitment to full independence.

"The battle for sovereignty, for independence, has been going on for one-and-a-half years," said the carpenter who sold off his horses to buy guns and join the Chechen resistance when Russian forces first entered the republic in 1994.

"We have suffered too much to stop now," said Mr Makhalev, who has lost three brothers in the fighting. "Of course, we do not want to fight, but there can be no road back, we will fight to the last Chechen."

In a sign that even if Mr Zelimkhan Yandarbiyev, the former poet who became leader of the separatist forces last month, was willing to compromise he might encounter stiff resistance from his field commanders, Mr Makhalev said he had been against the Kremlin meeting from the outset.

"It is Yeltsin who began the war and I did not think we should give him points ahead of the elections," Mr Makhalev said.

Russian soldiers were equally sceptical. "Yeltsin is cunning and he is collecting votes," said Andrei, a 19-year-old soldier, standing bare-chested on top of a tank at the Russian military's heavily fortified airport headquarters.

"But the war will never end here, it will still be going on in 2000. The people are crazy, they are monkeys, they are mountain goats."

Closer to hard rouble, Page 2

Czech reforms stall after poll setback for Klaus coalition

By Vincent Boland in Prague

The Czech Republic's rapid economic reforms have been suspended indefinitely after voters refused to give the outgoing coalition of Prime Minister Václav Klaus a fresh mandate in parliamentary elections at the weekend.

Preliminary official results of the election showed the three-party centre-right government two seats short of an overall majority in the 200-member parliament after a good showing by the main opposition Social Democrats (CSSD).

Mr Klaus's Civic Democratic party (ODS) won 29.6 per cent of the vote against 26.4 per cent for the CSSD. But projections showed the ODS and its two coalition allies, the Christian Democrats and the Civic Democratic Alliance, won only 99 seats even though their overall vote increased slightly compared with the last election in 1992.

The result is a big setback for Mr Klaus, whose signature is on many of the country's achievements in the past four years. Analysts said it could conceivably cost him the prime minister's post in a new government "if that were the price of stability".

Mr Klaus was clearly disappointed by his failure to win a majority, but he said he was confident he could form a new government. Such a minority administration may not last long, and there was speculation of a fresh poll as early as next spring after elections to the Senate later this year.

The big winner in the election was the CSSD, led by the economist Mr Miloš Zeman, which campaigned relentlessly on the theme of Mr Klaus's failure to tackle social problems, including a healthcare crisis and low wages, and alleged corruption in privatisation. The party almost trebled its parliamentary representation to 61 seats.

The CSSD has little prospect of forming a leftwing government, however, because Mr Zeman has refused to contemplate a coalition with the unreformed Communist party, which polled 10.3 per cent and won 22 seats, 13 fewer than in the outgoing parliament.

The other winner, which analysts said cut into ODS support as much as the CSSD, was the far-right Republican party. It polled 8 per cent of the vote and increased its seats by four to 18 on a virulently anti-gypsy and anti-German platform.

President Václav Havel is expected to ask Mr Klaus, as the leader of the biggest party in the new parliament, to form a government. While the outgoing coalition is expected to regroup, it will be handicapped by its lack of a majority and will have to get a governing programme through a newly hostile parliament.

The deadlock has cast a spotlight on Mr Havel, the man most identified with the country's transition to democracy.

He is now expected to play a crucial mediating role in behind-the-scenes negotiations in the next few weeks in a severe test of the country's constitutional order.

Václav Klaus: election result could cost him the prime minister's post in a new government 'if that were the price of stability'

Istanbul highlights 'megacity' blight

By John Barham in Istanbul

Istanbul, host to the United Nations' second Habitat conference on urban development, is afflicted by many of the problems confronting the developing world's "megacities".

That is one reason why the Turkish capital was chosen for the conference, which opens today.

Mr Recep Tayyip Erdoğan, mayor of Istanbul since 1994 and a prominent figure in the Islamist Refah party which governs the city, has built a reputation for himself and his party for honest governance, an issue high on the conference agenda.

Mr Mustafa Açikalin, secretary-general of the municipality, says "the biggest problems when we took over were corruption, waste, pollution, water shortages". He claims that hard work, honesty and efficiency plus some good luck, have allowed the Refah administration to make more considerable progress in two years.

However, the private sector's participation in managing and developing the city's infrastructure is limited to the traditional role of contractor. Unlike an increasing number of cities around the world, Istanbul has not established a strong public-private sector partnership.

Migration is a bigger problem than infrastructure for Istanbul, but the two overlap. Migrants fleeing rural poverty and violence in Turkey's wartorn Kurdish south-east region are arriving in Istanbul at a rate of about 1,000 a day.

A senior civil servant at the energy ministry says: "The only way to stop migration is to bring in residence permits to stop people moving to the major cities."

Private sector key to tackling urbanisation problems, Page 4

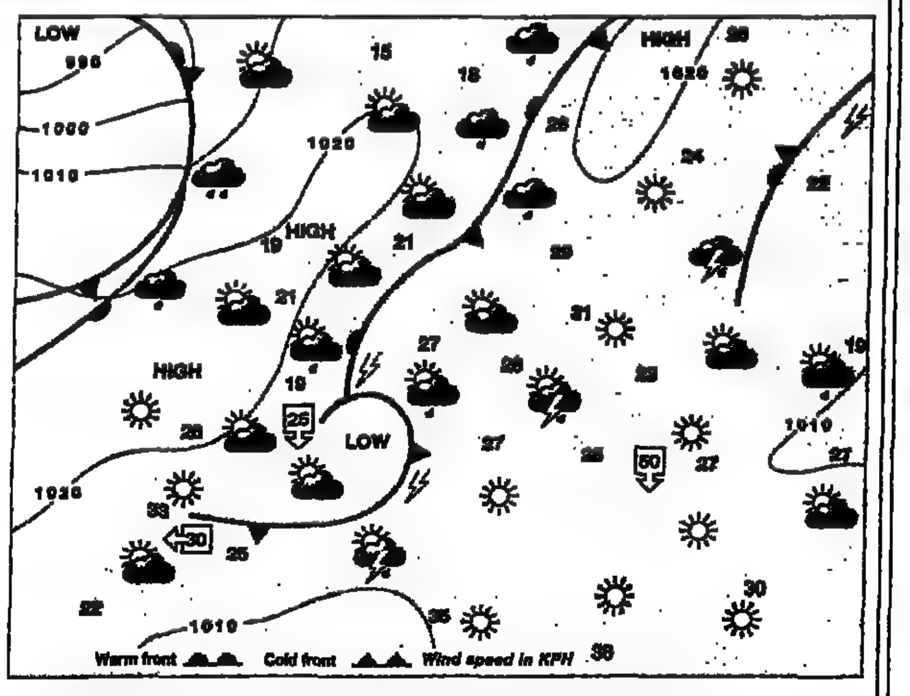
FT WEATHER GUIDE

Europe today

High pressure over France and the Low Countries will bring sunny periods and lighter winds. A frontal system over the eastern Atlantic will bring rain to western parts of the British Isles. Spain will be sunny with temperatures up to 33C in the south. A frontal zone over the Alps will cause rain and a few thunder storms. Northern Italy will also have a few thunder storms during the day. Eastern parts of the Mediterranean will remain settled, but northern Greece will have thunder showers. Showers are expected in eastern parts of Sweden and southern parts of Finland. Elsewhere it will be partly cloudy but will remain mostly dry.

Five-day forecast

High pressure will strengthen over western Europe and the Baltic Sea. This will lead to hot conditions over France and the Benelux. At the same time active low pressure will form over Italy causing rain and thunder storms. Eastern and northern Europe will remain settled.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	43
Accra	cloudy	30
Algiers	fair	21
Amsterdam	fair	18
Athens	fair	26
Atlanta	thund	27
B. Aires	sun	16
B.ham	fair	17
Bangkok	thund	35
Barcelona	fair	20
Beijing	fair	32
Belfast	rain	14
Belgrade	fair	30
Berlin	shower	21
Bermuda	shower	22
Bogota	thund	19
Bombay	fair	34
Brussels	fair	19
Budapest	fair	30
C.hagen	fair	17
Cairo	sun	31
Cape Town	fair	17
Caracas	cloudy	31
Cardiff	cloudy	16
Casablanca	sun	23
Chicago	shower	22
Cologne	fair	21
Dakar	fair	30
Dallas	sun	32
Delhi	fair	44
Dubai	sun	42
Dublin	rain	15
Dubrovnik	fair	27
Edinburgh	shower	15
Faro	fair	27
Frankfurt	fair	22
Geneva	shower	19
Gibraltar	fair	25
Glasgow	rain	13
Hamburg	fair	18
Helsinki	shower	19
Hong Kong	cloudy	30
Honolulu	sun	31
Istanbul	fair	24
Jakarta	thund	32
Jersey	fair	14
Karachi	sun	35
Kuwait	sun	45
L. Angeles	fair	25
Las Palmas	fair	25
Lima	cloudy	19
Lisbon	fair	27
London	fair	19
Lux.bourg	cloudy	19
Lyon	shower	19
Madeira	fair	22
Madrid	fair	26
Majorca	shower	20
Malta	fair	25
Manchester	shower	18
Manila	thund	33
Melbourne	cloudy	18
Mexico City	fair	22
Miami	fair	32
Milan	fair	25
Montreal	fair	26
Moscow	sun	26
Munich	shower	23
Nairobi	fair	24
Naples	fair	27
Nassau	fair	31
New York	rain	19
Nice	shower	23
Nicosia	fair	30
Oslo	sun	20
Paris	fair	21
Perth	shower	18
Prague	shower	23
Rangoon	shower	32
Reykjavik	cloudy	11
Rio	fair	23
Rome	fair	25
S. Frsco	sun	26
Seoul	fair	28
Singapore	fair	32
Stockholm	cloudy	18
Strasbourg	shower	21
Sydney	fair	21
Tangier	sun	28
Tel Aviv	fair	27
Tokyo	fair	23
Toronto	fair	23
Vancouver	cloudy	20
Venice	fair	26
Vienna	fair	28
Warsaw	fair	29
Washington	fair	22
Wellington	fair	11
Winnipeg	sun	19
Zurich	shower	20

THE LEX COLUMN

Angling for change

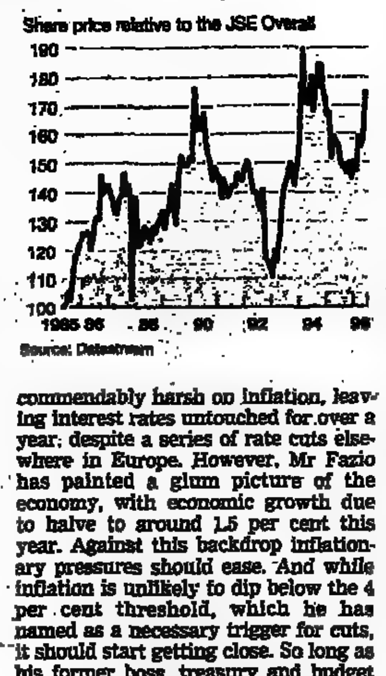
Anglo American is every corporate financier's dream. A group which straddles almost every facet of the South African economy, and much more, it is the perfect candidate for a break-up. Even after a strong share price performance, it trades at a 9 per cent discount to net asset value, of which over 90 per cent represents listed investments. And while its size ensures cheap borrowings, its labyrinthine structures hide attractive assets and restrict both growth and competition. Substantial shareholder value could be unlocked.

However, shareholder value does not seem to feature prominently in the Anglo lexicon. And even the growing political pressure for unbundling as a means of developing a more competitive and racially balanced economy has fallen on deaf ears – apart from a minor gesture, spinning off Johnnic. Eventually, Anglo may have no choice, but so far it has made it clear it will not voluntarily break itself up. It does not even concede that the likely lifting of exchange controls – a necessary precursor to an efficient break-up – would make it a more attractive option.

That said, Anglo's performance last year does not increase pressure for change. Its dollar-denominated businesses such as gold, platinum and pulp and paper benefited a little from the weakening rand, but the full benefits will only emerge this year. Minorco had an excellent year, and the prospects for De Beers are equally exciting, following its recent agreement on Russia's diamond exports. Nonetheless, Anglo's NAV discount has narrowed substantially beyond its traditional average of around 15 per cent. Given political risks, and a slowing economy, further upside looks limited.

Anglo American Corporation

Share price relative to the JSE Overall



Source: Datastream

Bank of Italy

The Bank of Italy is taking a refreshingly tough line on keeping the government's traditionally wayward spending habits under control. It has thrown away the administration's figures on the budget overshoot, emphasising that the deficit will be around L18,000bn ($11.54bn) or a third larger than previously admitted. Moreover, it has deflected pleas from Italian industrialists for lower interest rates and a softer lira, by pointing out that the corporate sector's profit margins are at record levels. Central bank governor Mr Antonio Fazio claims that until the government is tough on spending cuts, he will not cut interest rates.

Nonetheless, rate cuts still look inevitable. The Bank of Italy has been commendably harsh on inflation, leaving interest rates untouched for over a year, despite a series of rate cuts elsewhere in Europe. However, Mr Fazio has painted a glum picture of the economy, with economic growth due to halve to around 1.5 per cent this year. Against this backdrop inflationary pressures should ease. And while inflation is unlikely to dip below the 4 per cent threshold, which he has named as a necessary trigger for cuts, it should start getting close. So long as his former boss, treasury and budget minister Mr Carlo Azeglio Ciampi, can produce a sufficiently tough mini-budget – and the Bank of Italy's message should help encourage parliamentary approvals – a 1 percentage point cut should swiftly follow. After all, given the national debt of around L120,000bn, rate cuts are the easiest way to reduce the budget deficit.

Valuing utilities

Here is a puzzle for efficient-market theorists: why, in the face of plenty of evidence, do so many investors cling to a ham-fisted method of valuing Britain's utilities – on yields?

Theory, of course, says yields can be as good a guide to value as any other. By definition, a company is worth the sum of all the dividends it will ever pay, a yield valuation which gets a stock's dividend growth potential right, as well as the risks, will be spot on. But in practice, largely as a result of under-gearing and high levels of dividend cover, valuations based on current pay-out levels have consistently underestimated utilities' potential to shovel out cash – a point bidders have not been slow to spot.

In time, yield-based valuations will be easier to get right – when utilities have finally got their balance sheets in order and run out of scope to outsmart their regulators – and the shares will look more like bonds. The fact remains, however, that Britain's utilities are mostly a long way from that.

What should investors do? The best answer is to pay more attention to balance sheets and cash flow. In practice, this means looking at cash flow interest cover, enterprise value to cash flow multiples and taking the trouble to run full-blown discounted cash flow models.

This kind of analysis is no Holy Grail; it is tricky, for instance, to allow for the occasional enthusiasm of regulators and governments to get their own hands on investors' cash. And utilities may themselves waste it. But cash flow projections do give investors a basic yardstick against which to judge a utility's future dividend-paying potential. So even if investors are too fond of yields to part with them, they would still have a better chance of getting them right.

Close/Hill Samuel

Close Brothers' acquisition of Hill Samuel's corporate finance department is a vivid illustration of the transitory nature of merchant banking glory. Hill Samuel's star, one of the brightest in the sky 10 years ago, is all but eclipsed, while Close Brothers' is undoubtedly in the ascendant. And though the price was undisclosed, that was probably to avoid embarrassing Hill Samuel's owner Lloyds TSB Group by revealing the paltriness of the sum.

Takeovers of people businesses like merchant banking are notoriously difficult to manage, but Close's record – for example in the case of marketmaker Winterflood Securities – is a good one. By taking on the Hill Samuel team lock, stock and barrel, the chances of preventing the best staff and clients from walking are improved.

So far, Close Brothers' success has been built on picking its markets carefully, and targeting a very specific position in those markets. In corporate finance, this niche has been advising small and medium-sized companies. The Hill Samuel acquisition will allow it to set its sights slightly higher. This is fine, as far as it goes, but in the long term there is a danger in moving towards the mainstream. It is comfortable to be a niche merchant bank, but medium-sized firms have found it hard to survive. For the moment, expansion of its fund management business still offers another fruitful route to growth. But Close should not forget that small is beautiful.

FINANCIAL TIMES
COMPANIES & MARKETS

Monday June 3 1996

KHD rescue depends on Saudi goodwill

By Michael Lindemann in Bonn

A rescue package for Klöckner-Humboldt-Deutz, the German engineering group which faces bankruptcy after uncovering hidden losses of DM650m ($422m), depends *largely on the goodwill of* Saudi Arabian businesses which ordered three cement plants from the group, according to executives close to the talks.

Mr Anton Schneider, KHD chief executive, was yesterday still holding talks in Saudi Arabia with the companies which ordered the plants from the group's KHD Humboldt Wedag subsidiary. The aim was to persuade them to waive penalty clauses, which start to bite if timetables are not kept *to, and to make payments* even if KHD has not met all its targets.

The penalties are understood to be so big that they could deter banks from agreeing the rescue package.

Mr Schneider, who was already in Saudi Arabia last weekend after the losses emerged, is accompanied by Mr Hans-Jürgen Wischnewski, a former Social Democrat minister who used to sit on KHD's non-executive supervisory board.

Should the Saudi Arabians agree to KHD's terms there is a chance, according to executives, that about 48 banks will agree to a rescue package – believed to be worth DM750m – for the company. "The Saudis have to play their part," a KHD executive said.

The package is due to be discussed on Wednesday at the Frankfurt headquarters of Deutsche Bank, which holds a 47.7 per cent stake in KHD. Mr Michael Endres, a Deutsche Bank board member, has been co-ordinating the efforts to find a way of rescuing KHD, *the third time such an attempt* has had to be made in the past seven years.

Having bought a number of properties from KHD last year, the city of Cologne, where KHD is based, is likely to buy *further plots of land*, worth about DM100m.

*The state of North Rhine-*Westphalia was working with Cologne and was expected to provide unspecified guarantees, KHD executives said.

Union representatives said the KHD workforce, which totals 9,425, would also be prepared to take wage cuts and *forego other benefits* to help find additional savings of DM100m.

"That is an offer about which we are prepared to negotiate with the management," a union official said.

There were also reports at the weekend that KHD would sell off its Humboldt Wedag unit and find other partners for its diesel engine business. However, the company refused to comment.

Competition for the cement plants which Humboldt Wedag *is building* was *fierce* – there are four or five companies worldwide which specialise in such business. In an effort to boost their new order books, Humboldt Wedag executives appear to have taken on the contracts over a period of about two years, regardless of consequences.

Anglo American defends its diversity

By Mark Ashurst
in Johannesburg

Anglo American Corporation has scotched speculation that it will unbundle its non-core interests to focus on its natural resources business when exchange controls are abolished in South Africa.

Mr Julian Ogilvie Thompson, chairman, said results for the year to March "attest to the group's successful strategy of geographic and business diversity". Net income for the year rose 30 per cent to a record R4.4bn ($1bn).

The announcement sends a *clear signal to the government*, which is embroiled in controversy over an undisclosed draft of its antitrust and competition policy, that Anglo has not softened its resistance to pressure for a restructuring of the country's biggest conglomerates.

Earlier in the week, Mr Cyril Ramaphosa, secretary-general of the African National Congress, told the South African Chamber of Business, the business lobby group, that *economic reform* was stalling because there was "no sense of urgency among business leaders and even some political leaders".

Mr Ramaphosa quits parliament this month to become *deputy executive chairman of* New Africa Investments, South Africa's largest black-controlled company. He will lead its bid for Anglo's 48 per cent stake in Johnnies Industrial Corporation (Johnnic), the industrial holding company which Anglo put up for sale in the run-up to the first all-race election in April 1994.

But Mr Ogilvie Thompson said that while he hoped the sale of Anglo's stakes in Johnnic and the mining group JCI would soon be completed, Anglo remained committed to its other financial, industrial and property interests. "We don't *think* in our case that unbundling will serve any purpose at all," he said.

Anglo's interest in the mining assets of UK-based Lonrho, which owns a 32 per cent stake in the Ashanti gold mine in Ghana, and in Aracruz, the Rio de Janeiro-based pulp producer, had prompted analysts to forecast that Anglo would in future concentrate on its core natural resources business. Anglo has a 27.5 per cent interest *in Lonrho, and last month* acquired 12 per cent of the equity and 28 per cent of the voting rights in Aracruz.

Mr Ogilvie Thompson said the discount to net asset value on Anglo's stock price, which *has averaged about 10 per cent* this year, was "a mistake" by the market. "It is not even necessarily the case that unbundling increases the total market value of the parts immediately afterwards."

Comparisons between Anglo and some other conglomerates, where "unbundling may be appropriate", were flawed because most of its companies had "been started from scratch" and benefited from *the technical* expertise and other synergies within the group. Its diversity was in shareholders' interest.

"Sometimes we lose on the swings and then usually we gain more on the roundabouts," he said.

Earnings per share rose 30 per cent to 1,883 cents a share. The final dividend was 440 cents, lifting the total 24 per cent to 570 cents.

By sector, industry and commerce contributed 39 per cent of earnings, against 19 per cent from financial services, 16 per cent from diamonds, 9 per cent from gold and uranium, 9 per *cent from platinum*, base metals and other mining, and 8 per cent from coal.

The group had allocated $250m of the $1bn multicurrency syndicated loan raised in February to purchase Aracruz. The likely destination of the balance was undecided. "We *are in a position to follow any* opportunities that arise," said Mr Ogilvie Thompson.

Lex, Page 18

INSIDE

Avis

Avis Europe, continental Europe's largest car hire company, *is considering a* return to the London stock *market* seven years after it was taken over by a consortium of investors. Avis will today announce a 42 per cent increase in annual operating profits to £83.7m ($127.2m). Page 21

Parc Asterix

Parc Asterix, a theme park north of Paris inspired by the Asterix cartoon book character, is set to announce details next week *of a planned listing on* France's second market. Page 21

Fund Management

The US tax code 401(k) has become shorthand for perhaps the fastest growing segment of the US pension fund investment market. Page 24

Global Investor

The real battleground in corporate governance remains the shift of power from managers to investing institutions and despite the best efforts of managers, the onward march of investor power seems inevitable. Page 25

Faces

Mr Dik Dusseldorp's campaign to create a new breed of property investment vehicles in the UK received a boost last week when the London Stock Exchange published draft rules enabling *property unit trusts to* seek a full listing. Page 24

Emerging Markets

Although the nine-day rally on the Caracas stock market came to a *halt* in the middle of last week, analysts *see a* continued bullish trend. Page 27

Gerard Baker sounds a pessimistic note on the corporate outlook after the results season

Ills still lurk behind Japan's healthy-looking figures

Last week, *Japan's corporate sector* completed a familiar *rite of spring*. The annual reporting season, a hectic three-week period during which 2,000 listed companies publish their results for the *year to March, concluded* on Friday. The annual statistical deluge is widely viewed as a reliable barometer of the nation's economic health.

With all the results for 1995-96 in, preliminary judgments can be made about the overall performance, with big *implications for the stock market*. Most companies claim the results are the first clear proof of the strides made in their restructuring efforts – changes that were forced on them by recession at home and the appreciation of the yen abroad in the early 1990s.

But closer examination of the advances suggests there is little concrete evidence yet of a big change in corporate fortunes. In fact, the outlook for the next year or so actually appears to be deteriorating.

This year, the overall figures were heavily distorted by the banks, which chose to make massive write-offs of bad loans in the year, and therefore reported a combined loss before tax of Y4,000bn ($37.1bn). It is safer, therefore, to look only at the non-financial sector's results to assess the health of the economy.

Perhaps the most important advance was that, for the first time in five years, the country's *leading companies* (those listed on the first section of the Tokyo stock exchange) reported an aggregate increase in sales. The figure – a 2.5 per cent rise in turnover – reflected the gradual emergence *of Japan from recession*. While domestic demand was weak, depressed further by the prevalence of price cutting, companies did enjoy the benefits of continuing growth in overseas markets, helped by a weaker yen.

The figure that will give *most cheer to investors* is the jump in aggregate net profits.

Highly geared companies with the weakest balance sheets reported some of the biggest improvements

Overall, companies reported a 42 per cent improvement, the biggest increase in post-tax earnings for more than a decade.

That net figure is, however, an *unreliable* indicator of underlying business performance.

Companies benefited from a much lower tax take this year, partly as a result of losses in previous years. Second, many firms had made large special expenditures in the previous *financial* year, some related to restructuring, which resulted in a much bigger net profit figure for 1995-96.

At the pre-tax (recurring) level, the overall improvement was therefore less impressive – up by 23 per cent. And even here special, non-operating factors helped.

Some companies significantly altered depreciation *accounting methods. Many* more gained from steep falls in interest rates, which cut the cost of their debt servicing. Indeed, it is something of an irony that it was the very highly geared companies with the *weakest balance sheets* that reported some of the biggest *improvements* in recurring profits.

Stripping away the accounting and other elements that improved the bottom line, the actual operating gain was rather less significant. Operating profits rose just 10.6 per cent on a year earlier. That followed a similar increase the year before, *after several years* of decline. Given the return to sales growth, it would seem that although Japanese companies have made some advances, claims of a comprehensive restructuring have been overdone.

A look at margins bears this out. Operating margins in 1995-96 rose to 3.5 per cent, according to Mr Jason James, equity strategist with James Capel Pacific in Tokyo. This leaves them still well below levels achieved in the 1980s and early 1990s, a period when cost control was not considered a high priority.

"*Operating margins* are really nothing to write home about, even by Japan's standards," says Mr James.

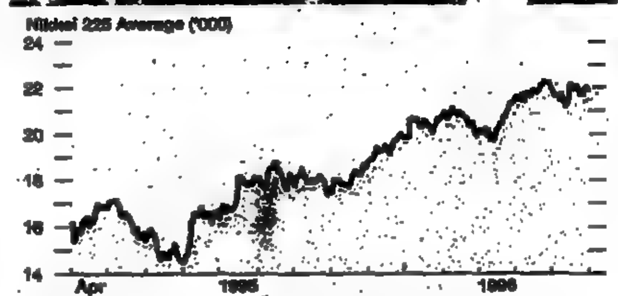
Where does that leave prospects for future earnings growth? If margins have grown only *slightly during the post-*recession rebuilding phase, the immediate outlook will depend rather more on continuing sales growth.

Sure enough, the companies' own projections for profits for the year to next March are much bleaker. They expect overall sales to turn down again by 2.5 per cent, and recurring profit to rise just 6.6 per cent, though net profit is again expected to produce a bigger jump, of 28.4 per cent.

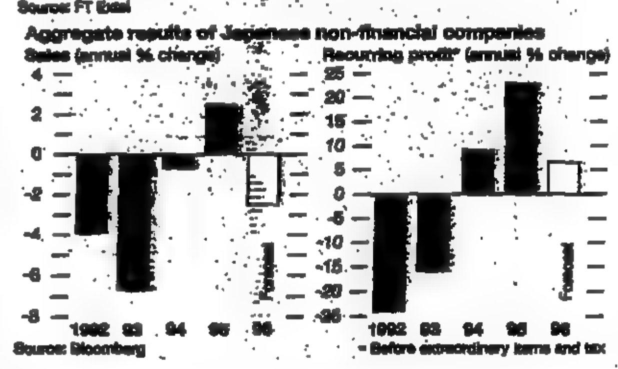
In short, the evidence from 1995-96 is that Japanese companies improved their underlying *profitability only marginally*. More important was the benefit they derived from a more favourable operating climate than they have had for half a decade – most notably from a falling exchange rate.

Without a similarly favourable jolt to demand in the coming year, they do not expect profits to rise much higher than the relatively meagre progress made so far. Their pessimism is surely justified.

Fickle fortunes



Source: FT Extel



Source: Bloomberg
* Before extraordinary items and tax

STATISTICS

Studios seek digital disc protection

By Alice Rawsthorn
in London

Hollywood film studios will today start a series of meetings in Washington with the world's electronics companies *in a desperate attempt to strike* a copyright protection *agreement for the new* generation of digital video discs.

Unless the two camps agree terms this week several electronics groups, including Toshiba and Matsushita of *Japan and France's Thomson*, may have to delay the proposed launch of the first digital disc systems this autumn.

Digital video disc, which provides better sound and picture quality as well as greater storage capacity than video cassette, is billed by consumer electronics companies as the most important new product of the 1990s. They hope the new discs will have the same catalytic effect on the sluggish electronics market as compact discs and video cassettes did during the 1980s.

However, if the *new discs* are to fulfil these expectations, electronics manufacturers need to ensure that there is a plentiful supply of entertainment software, notably blockbuster movies, *for consumers to buy when the* first systems go on sale.

The Hollywood studios hope digital video disc will create a lucrative new market for their software, but they are concerned about the risk of pirates using *the discs* to create near perfect replicas of films. Hence they *have adopted* an aggressive stance in talks over copyright issues and are threatening not to release their movies on the new discs until a satisfactory agreement is in place.

The electronics camp has *already agreed that the first* generation of digital video disc *systems* will not have a recording function.

However, future systems may include such a facility, and the second version of digital discs, known as DVD-Rom, which will come on *sale early next year to be* used with computers for data storage, will be recordable.

The Hollywood studios are demanding an agreement to provide long-term protection for their copyrights on each *generation of the system*. They are also insisting that different versions *of digital discs* are developed for different parts of the world to prevent parallel import problems.

Unless an agreement is secured at this week's meetings, Toshiba and Matsushita might not be able *to introduce their first systems* in Japan this September as they had hoped, thereby missing part of the important autumn sales season. Similarly Thomson might have to delay its plans for a North American launch in September.

Other manufacturers plan to *bring out their first digital* video disc systems later in the year and hope to stick to their schedules.

Japan's Sony plans to introduce its first system in Japan and North America *towards the end of this year*, with DVD-Rom making its debut in late 1997.

COMPANIES IN THIS ISSUE

UK insurers resist calls for special merger dividend

By Ralph Atkins,
Insurance Correspondent

Royal Insurance and Sun Alliance are resisting pressure from institutional shareholders for a share buyback or special dividend *as part of the planned* merger of the two UK composite insurance groups this summer.

The absence of an extra payout to shareholders has emerged as a concern of institutions ahead of extraordinary general meetings to approve the deal on June 14.

Institutions' disappointment is unlikely to derail the merger but could persuade the combined group, Royal & Sun Alliance, to reconsider the issue soon after the deal is completed, expected in mid-July.

Despite some recent scepticism about merger's benefits, Royal and Sun Alliance shares closed on Friday 15 per cent and 10 per cent *higher* respectively than before the bid's *announcement on May 3*.

The groups have reassured institutions that savings will be made by combining marketing, technology, premises and overseas activities.

Pressure for a share buyback or special dividend has grown because the solvency of the combined group will still be high by insurance sector standards. Analysts are worried because overcapitalised insurers often try to build market share at the expense of profits.

"The one thing that the merger doesn't address is the issue of excess capital," said Mr Trevor May, analyst at Salomon Brothers. "When the merger has settled down, it will be very much on the agenda if there is no corporate *need for the capital*."

Mr Richard Gamble, Royal Insurance chief executive, and Mr Roger Taylor, Sun Alliance chief executive, have defended the combined group's capital strength. They argue strong financial backing protects against possible downturns in world stock and bond markets or currency fluctuations.

Mr Steven Bird, insurance analyst at Merrill Lynch, suggested: "They are clearly leaving themselves scope to make further acquisitions."

COMPANIES AND FINANCE

Job cuts expected as WH Smith plans growth

By Christopher Brown-Humes

WH Smith is to seek a dramatic improvement in the performance of its 550 stores as part of a drive to lift profitability and restore its position as a force in the UK high street.

It is also expected to announce up to 1,000 redundancies and the closure of its London headquarters in Sloane Square when it presents the results of a keenly-awaited strategic review next week. It is also likely to reveal a large one-off restructuring charge.

The moves follow an assessment that the group could make more of its brand name and leading market positions – in areas such as books, newspapers and stationery – despite growing competition from supermarkets.

Smith is understood to be planning an overhaul of its UK stores, cutting out the poor performers from its 75,000 product lines, revamping formats, strengthening stock management and improving service. There will be a greater emphasis on efficiencies in logistics and distribution.

The group feels it is not making enough of its customer base – it has 7.5m customers a week, but only 62 per cent buy something and the average spend is just £5. Its net retail margins at 4.5 per cent are less than half those achieved by Boots – but every 1 percentage point addition would lift profits by £10m.

The staff cuts will fall mainly on its London headquarters and the Swindon base of the chain. Shop closures are not planned, because the stores are felt to be well-positioned.

The review was initiated in January by Mr Bill Cockburn, Smith's new chief executive, after a second profits warning in a year. Interim pre-tax profits fell sharply from £45.2m to £17.3m, despite a rise in sales to £1.35bn from £1.22bn.

When the results are presented next week, the group will signal a readiness to sell its 50 per cent stake in Do It All, the lossmaking DIY chain, and put "on hold" its commitment to The Wall, a chain of 160 US music stores.

But it has decided to retain its wholesale newspaper distribution business – despite a lack of synergy with its other businesses – because it is strongly cash-generative.

At the same time, the group plans to retain Waterstones and Our Price/Virgin and build on these successful UK book and music shop businesses.

It also plans to keep its hotel and airport concessions in the US, and believes there is scope to extend the concept to other parts of the world.

Smith has decided it should not be in the over-supplied UK DIY market long term, but selling the unit may cost more than £100m. This would still be cheaper than closing it down.

It also believes that, although The Wall is profitable, it would be sensible eventually to pull out of the cut-throat US music-retail sector.

Circle Comms to seek £5m via Aim float

By Raymond Snoddy

Circle Communications, which owns the television rights to feature films such as El Cid and distributes hit TV dramas such as Bugs around the world, plans to float on Aim next month.

Mr Peter Clark, chief executive of Circle and formerly chief executive of TVS International, believes the company will be the only "pure" programme rights investment on the London Stock Exchange. The float aims to raise about £3m for programme rights acquisition and £2m to repay debt to shareholders, Media Ventures International and Gartmore private capital. It is expected to value the company at about £12m.

Circle has three main businesses: Pavilion International, a distributor with nearly 1,000 hours of drama and factual programmes in its catalogue; Delta Venture, 80 per cent owned, which specialises in acquiring rights to vintage films and has a library of more than 90 titles, including work by Otto Preminger, John Ford and Alfred Hitchcock; and Carnival (Films and Theatre) the UK independent production company run by Mr Brian Eastman which is 40 per cent owned by Circle. Carnival's productions include Poirot, Jeeves and Wooster, Porterhouse Blue and Bugs. Circle has sold Bugs, a hit for the BBC, to more than 50 countries.

Sir David Nicholas, former chairman of Independent Television News, is to be become chairman of Circle. The company, which is expected to make at least £600,000 in the six months to June, is being advised by Hambros Bank and stockbrokers Peel, Hunt.

The pathfinder document is expected to be published on Friday with trading commencing on July 1.

Gene therapy: a hopeful prognosis

Oxford BioMedica aims to catch Biotech's wave, says Simon Kuper

Gene therapy has so far only been used on a few hundred people, but companies are nevertheless racing to develop technologies to treat diseases from cancer to Aids.

The aim is to replace faulty genes. Among the frontrunners – most of them American – is a small, husband-and-wife, university-backed company called Oxford BioMedica.

Alan and Sue Kingsman, biochemistry academics, plan to raise seed finance this month and then seek several millions by floating on the Alternative Investment Market in the autumn. They expect to follow a long line of biotechnology start-ups by pushing through to the main market within two or three years.

By 1999 Oxford BioMedica expects to be entering Phase I/II clinical trials with some of its products. Mrs Kingsman says its gene therapy treatments for the HIV virus and for ovarian cancer are "running neck and neck". By about 2002 the Kingsmans hope to be selling their first products, marketed through large drugs companies.

The potential rewards are huge. The current market for treating the cancers Oxford BioMedica is trying to tackle is about $12bn (£7.8bn) a year. The Kingsmans believe that treatments for neurodegenerative diseases could be worth $3bn-$5bn, and for Aids, $1bn.

Mr Kingsman says: "Gene therapy could dominate those markets. It will have a major impact on all major classes of diseases." He expects treatments to spread from life-threatening diseases to cosmetic problems – gene therapy for obesity is already being developed.

But the problem in gene therapy is not the theory. Almost everyone accepts that diseases can be cured by inserting a "good" gene into the chromosome of a damaged cell. The difficulty lies in getting the gene to hit the right spot.

Alan and Sue Kingsman: trying to grow a public company from seed finance via autumn Aim listing

Oxford BioMedica thinks the solution is to use retroviruses – fairly simple viruses of the same family as HIV, the virus which causes Aids. These have evolved over millions of years and normally deliver their own genes to cells. But the Kingsmans are producing new retroviruses, customised for specific diseases, to deliver "healthy" genes to the chromosomes of infected cells.

They believe they have few direct competitors. The only other British business to specialise in gene therapy is Keele-based Therexsys, which last month raised £22.5m in its second financing round. Its target for the private share placement had been just £8m-£10m.

Oxford BioMedica was spun out of research carried out at Oxford University, which will be a main shareholder, and the company's chairman is Mr Brian Richards, co-founder of British Biotech and chairman of Peptide Therapeutics. All that remains is for gene therapy to be made to work.

KPMG may run Facia

By William Lewis

KPMG, the accountancy firm, hopes today to be appointed as receiver to nearly all of the businesses of Facia Group, formerly the UK's second-largest privately-owned retailing chain. It is expected to challenge in London's High Court a move by Sears, Britain's biggest speciality retailer, to have Facia's shoe shops put into administration.

On Saturday KMPG was appointed as receiver to Facia Group and approximately 500 of its speciality outlets including Contessa, Oakland and Torq after United Mizrahi Bank decided to call in loans totalling £7m. Grant Thornton was appointed as receiver to Salisburys, also part of the Facia Group.

KPMG said yesterday that Facia Group had debts of £30m on annual sales of £250m and it had lost nearly £9m in the past 16 weeks.

Facia's stores traded as normal over the weekend, KPMG said, and there have already been "several expressions of interest" from potential purchasers of the Facia businesses already in receivership, but KPMG stressed that "you have to move fast in retail before customer and staff confidence disappears".

Texas American Group, a small US company which last week said it had an agreement to buy Facia, has not yet contacted KPMG.

David Lloyd wants to control clubs

By Antonia Sharpe

David Lloyd, the former tennis star, is seeking to regain management control of David Lloyd Leisure, the tennis and health club business he founded which was bought for £200m in August by Whitbread, the brewing and leisure group.

Mr Lloyd, who is chairman but not involved in day-to-day management, said yesterday: "I believe I'm the best person in the world to run David Lloyd Leisure."

He netted more than £20m for his 8.5 per cent stake and share options when his company was taken over but yesterday backed away from reports that he was close to resigning. "I'm 100 per cent behind staying... No-one walks away from their life," he said.

However, Whitbread is understood to oppose Mr Lloyd taking a more active role because it is happy with its choice of management team.

The group is investing £30m a year in expanding David Lloyd Leisure and prefers a professional management team to an entrepreneur. Since Whitbread took over, profits have risen 46 per cent and sales 38 per cent. It is expected David Lloyd Leisure will contribute £15m-£16m to profits in the current year, which runs to the end of February 1997.

Last month, Whitbread reported an 11 per cent increase in pre-tax profits to £283.1m for the 53 weeks to March 2. Such a profit contribution by David Lloyd Leisure would vindicate the decision by Mr Peter Jarvis, Whitbread's chief executive, to pay "top dollar" for the company.

Lazard Bros to fight claim

By Ralph Atkins

Lazard Brothers, the merchant bank, indicated yesterday that it would fight vigorously a £120m legal claim for damages from the estate of the wealthy Norwegian shipowner Mr Anders Jahre.

The bank refused to comment in detail on the allegations or the nature of its involvement with the financial affairs of Mr Jahre, who died in 1982.

It said in a statement that the law suit was based on two propositions. These were, first, "that Lazard Brothers was in control of the assets which it is alleged have been lost" and that, secondly, it was "accountable" to the late Mr Jahre for these assets.

The bank went on: "Lazard Brothers and the other defendants deny both these propositions and will defend the case in court".

Lazard Brothers is half owned by the Pearson group, which also owns the Financial Times.

Rolls-Royce seeks closer links with Westinghouse

Rolls-Royce of the UK is attempting to forge a closer power engineering alliance with Westinghouse of the US. The two already co-operate in several power projects, writes Michael Skapinker.

Industry sources believe that the two groups are still a long way from forming a joint company, which could bring in Mitsubishi of Japan and Fiat of Italy, with which Westinghouse also has partnerships.

Westinghouse markets the industrial version of the Rolls-Royce Trent jet engine in the US. Rolls-Royce is using Westinghouse equipment in a power station in India.

Avis Europe may return to London SE

By Geoff Dyer

Avis Europe, continental Europe's largest car hire company, is considering a return to the London stock market seven years after it was taken over by a consortium of investors, including General Motors, for nearly £900m ($1.39bn).

The group's board is analysing a number of changes to its ownership structure, which include flotation and a merger with Avis Inc, its US associate and one-time parent.

Mr Alun Cathcart, executive chairman of Avis Europe, said that if the group succeeded in doubling in size over the next five years it could face an annual capital requirement of more than £2bn.

However, he said the board was in no hurry to make a decision. "We can satisfy our funding requirements for the next two years under the present structure," he said.

Avis Europe was floated on the London stock market in 1986 with a value of £270m. Three years later it was bought for £896m by Cilva Holdings, in which D'Ieteren, the Belgian car distribution group and former royal coach maker, was the largest shareholder.

The highly leveraged acquisition left the group with debts approaching £1.5bn, which were reduced in 1992 when it sold its car leasing business to GE Capital in a deal worth £1bn.

A £50m equity injection earlier this year left D'Ieteren with a 77.1 per cent stake, Avis Inc with 8.7 per cent, and General Motors, which did not subscribe, with 14.2 per cent.

The 1989 buy-out had been intended as a first step towards a merger with Avis Inc, but the complex legal structure of the US company, which is partly owned by its employees, has made this difficult to achieve. However, Mr Cathcart said it was still being examined.

Other options under consideration were further investment from the existing shareholders and for new parties to take a stake in the group.

Mr Cathcart accepted that the poor performance as a public company of rival Eurodollar – its shares have fallen from 220p at flotation in July 1994 to 132p – might make flotation less attractive.

However, he said he hoped Avis's previous record as a listed company and its greater international spread would appeal to investors.

Avis will today announce a 42 per cent increase in operating profits in the year to February 29, to £83.7m from £59m on turnover 19 per cent higher at £477.4m compared with £400.6m.

The profits improvement followed growth in the leisure and replacement car markets, and a 2 percentage point increase in the utilisation rate to 60 per cent.

Parc Asterix plans listing on French second market

By Andrew Jack in Paris

France's very Gallic answer to the EuroDisneyland theme park is to seek a stock market quotation this year.

Parc Asterix, a theme park north of Paris which is inspired by the Asterix cartoon book character, is set to announce details next week of a planned listing on France's second market.

The move reflects its desire to speed up rapid growth and would further enhance its claim to be the second significant theme park in the country, after EuroDisneyland, which is controlled by the Euro Disney group and based to the east of the city. The move comes at a time of growing interest across Europe in specialist leisure parks.

Executives have indicated that they intend to raise FFr50m to FFr60m ($9.7m –$11.6m) on the stock market, enough to provide a year's investment in advance. The flotation is scheduled to take place after October – when the park closes for the year.

Until now, the park has relied on a small group of corporate investors, of which the largest two are Générale des Eaux, the utilities and construction group, with 27 per cent, and Accor, the hotels and leisure group with 24 per cent. These groups have expressed their continued support for the park, but do not wish to invest further money.

Parc Asterix is older than EuroDisneyland. It opened in 1989 with a series of fun-fair attractions and activities inspired by the village in ancient Gaul which formed the basis for a series of cartoon books sold around the world.

While the theme-based nature of Parc Asterix has often triggered comparisons with EuroDisneyland, it is far more modest in nature.

It receives a fraction of the visitors of its US-inspired rival, and its marketing policy is far less ambitious.

However, executives claim that it has been self-financing for the last three years, and has been profitable for two, while avoiding anything like the huge financial restructuring undergone by Euro Disney in 1994. It generated net income of FFr32m in 1995 on turnover of FFr300m.

When EuroDisneyland opened in 1992, Parc Asterix suffered a 30 per cent drop in visitors. However, attendance has since climbed back, reaching 1.5m in 1994 and 1.8m last year. EuroDisneyland's latest figures were around 11m.

Ceská Spořitelna raises $48.5m with GDR issue

By Vincent Boland in Prague

Ceská Spořitelna, the Czech savings bank, has completed its first foray into the international markets with an issue of just over 5m global depositary receipts (GDRs) to foreign investors in a transaction valued at $48.5m.

The bank said on Friday that it had successfully placed the secondary issue, representing 7.9 per cent of its common stock and 6.6 per cent of its total equity capital, with US and European investors.

The issue was co-managed by Bankers Trust and Deutsche Morgan Grenfell.

Ceská Spořitelna is the second Czech bank to launch a GDR programme to attract international investors. It follows two issues by Komerční Banka, the leading Czech bank, the second of which was completed in mid-May.

CS offered 5.08m GDRs, each representing one common share, at a price of $9.54, a discount of about 7 per cent to the price of the shares on the Prague stock exchange on Friday. The GDRs do not carry voting rights.

The bank had originally hoped to launch a primary issue and had asked the National Property Fund (NPF), the Czech state holding company and its biggest shareholder, to reduce its 45 per cent stake by 7 percentage points and release those shares to be sold on to new investors.

However, the government rejected the request and said the wider issue of reducing the state's large stakes in the main Czech banks needed to be considered first.

Analysts welcomed the completion of the GDR issue and said the entry of foreign shareholders would "keep management on its toes", as one banking analyst put it.

CS has often been considered a laggard in attempts by Czech banks to get to grips with problem loans. It was forced under intense pressure from the Czech National Bank and its own auditors to make provisions of just over Kc9bn ($335m) for classified loans in 1995, almost wiping out its profits for the year.

CS accounted for almost 100 per cent of Czechs' savings accounts during the communist era and still has some 75 per cent of that market. It is a dominant player in the interbank market and has been hit by the collapse of several small private banks in the past two years.

The launch of the GDR issue was overshadowed last week by an attempt by another of the bank's big shareholders, the privately owned financial group Motoinvest, which said it owned a stake of between 5 and 10 per cent, to get a seat on its board. However, this move was also turned down by the NPF.

Tenders for Hungarian power group stakes close

By Virginia Marsh in Budapest

AES Corporation of the US, the UK's PowerGen and Steag and RWE of Germany are believed to be among the western utilities that have bid for majority stakes in two Hungarian power generators.

The companies are being sold in the second phase of the country's ambitious privatisation of its energy sector.

In the autumn, Hungary raised nearly $2bn through sales of stakes in two power generators and in 12 gas and electricity distribution companies, mainly to German and French utilities. The sales were the first of their kind in the former eastern bloc.

Tenders for stakes of 81 per cent and 74 per cent in the Tisza and Budapest power generation companies respectively closed last week.

Minority stakes in the two companies, with options for a majority by 1997, were offered last year but failed to find buyers, along with three other non-nuclear generators. APV, the state privatisation agency, said on Friday that tenders for the remaining three power companies would be announced this week.

Analysts say the five generators, four of which include coal mines, are less attractive than the two sold last year. Unlike last autumn, when the sales were rushed through in a matter of weeks, however, APV, the privatisation agency, has allowed up to 120 days for the current negotiations. APV is being advised by Schroders, the UK merchant bank.

AES and PowerGen are said to be front-runners for Tisza, the larger of the two generators. The acquisitive US company is a partner in a $4bn project to build a gas-fired plant in Poland and was part of the consortium that last month acquired a controlling stake in Light, the Brazilian power company.

A German consortium of RWE and Energie-Versorgung Schwaben is considered the favourite to acquire the smaller Budapest power company.

NEWS DIGEST

Gemina loss worse than expected

Gemina, the quoted Milan holding company, reported losses of L632bn ($408m) for 1995, compared with a deficit of L262bn in 1994. The result is much worse than the company forecast in November, when it said it expected a year-end loss of L468bn. The main source of the deficit continued to be the Rizzoli Corriere della Sera (RCS) publishing subsidiary, which lost L729bn against Gemina's forecast in November of L590bn.

As well as its problems at RCS, Gemina has had difficulties with Gemina Capital Markets, a financial sector subsidiary, for which it booked a loss of L155bn due to changes in valuation criteria. The company says that, owing to the impossibility of obtaining the necessary information in sufficient time, it has had to exclude the area headed by Gemina Capital Markets from consolidation. Last October, magistrates served warrants on 10 directors and managers of Gemina and RCS, warning that they were under investigation for alleged false accounting and improper distribution of profits. This led to the abandonment of the planned mega-merger with Ferruzzi Finanziaria. *David Lane, Rome*

Ferruzzi sells newspaper

The Ferruzzi group has sold the Rome daily newspaper Il Messaggero to Caltagirone, the Rome-based cement, construction and media group. The sale continues Ferruzzi's strategy of selling non-core activities and completes its withdrawal from the media sector. Ferruzzi sold its Globo BV subsidiary, which controlled the Telemontecarlo TV channel, to the Cecchi Gori group for L75bn ($48.45m) last July.

Ferruzzi will raise L356bn through the disposal of its 100 per cent interest in Il Messaggero and receive L96bn on the transfer of its shares. The operation will be completed with the payment of two instalments, each of L130bn, on July 31 1997 and July 31 1998. Guarantees for these payments are being provided by a major bank, reported to be Banca di Roma.

Caltagirone, a family-controlled group, is best known for Vianini, its construction business, and Cementir, the cement company purchased from the IRI state holding company in February 1992. The purchase of Il Messaggero, which has daily sales of about 260,000 copies, is a significant addition to its media interests. Last year, it acquired Il Tempo, a smaller Rome paper with sales of some 90,000 copies. *David Lane*

Johnston to leave RJR Nabisco

The US tobacco industry is to lose one of its top executives with the announcement that Mr James Johnston, head of RJR Nabisco's tobacco business, will leave the company at the end of this month. He said he wanted to take a break and spend some time with his family while he was "still young enough to fully appreciate the experience".

Mr Johnston, 50, has headed RJR Nabisco's domestic tobacco business since 1989 and added the international business in 1993. Two years ago he emerged as the industry's most articulate defender when seven top tobacco executives were summoned before a Congressional hearing and subjected to hostile questioning about the tobacco industry's activities. *Richard Tomkins, New York*

■ Spain's Banco Bilbao Vizcaya has agreed in principle to buy a 40 per cent stake in Banco Ganadero, Colombia's largest bank in terms of assets. The acquisition is due to be carried out principally through BBV subscribing for new common shares to be issued by Banco Ganadero. BBV estimates the deal will require an investment of some $300m. It said the tentative agreement between majority shareholders of the two banks was "non-binding". *Reuter, Bogota*

Argentaria raises Endesa stake ahead of sell-off

By Tom Burns in Madrid

Argentaria, the partially privatised banking group, has spent more than Pta39bn ($302m) to raise its stake in Endesa, the profitable state-controlled electricity generator, from 1.2 per cent to 3 per cent. The move underlines the growing concentration of equity in Spain's blue-chip companies.

Argentaria's move brings its shareholding level with Banco Santander, the leading domestic banking group, which paid Pta50bn for a 3 per cent stake in the utility in a surprise acquisition announced in April.

Both Argentaria and Santander will now have seats on Endesa's board.

Endesa, which is 66 per cent state-owned, is likely to tap the markets in the near future and Argentaria now joins Santander as a candidate to manage the forthcoming disposal of state-owned equity in the utility.

Analysts expect the government to sell at least 15 per cent of Endesa – an offering which would be worth about Pta250bn at current market prices – before the end of the year.

The changing equity structure at Endesa reflects the creation of a similar hardcore shareholding base in Repsol, the profitable oil, gas and chemicals group which is 10 per cent state-owned. Banco Bilbao Vizcaya (BBV) is understood to have recently raised the 5 per cent stake it controlled in Repsol to 7 per cent, and La Caixa, the big Barcelona-based savings bank, has acquired a 5 per cent stake in the energy group over the past three months.

The sale of 25 per cent of Argentaria on the international markets in March realised $1.1bn and reduced the state's holding in the banking group from 50 per cent to 25 per cent. The group could be fully privatised after the completion in September of the six-month lockout period that followed March's secondary share issue.

Argentaria's Endesa purchase adds a new element to its business profile for it brings the bank into the leading group of domestic financial institutions that have taken strong positions in big public sector companies.

Argentaria, which is ranked third among the domestic banks behind Santander and BBV, already owns 3 per cent of Telefónica and is a core shareholder of the state-controlled telecoms operator, together with BBV and La Caixa.

CBA and North warn on full-year profits

By Nikki Tait in Sydney

Two more big Australian companies – Commonwealth Bank and North – have given profits warnings.

Commonwealth Bank, which is on the brink of further privatisation, warned that it expected only "flat" earnings growth in 1996-97. The forecast represents a deterioration from the predictions made two months ago, when the bank said earnings growth in 1996-97 would be modest but positive.

The bank blamed the revised prediction on the "combined effects" of its planned share buy-back programme, price competition in the banking market, and some new government deeming rules for pensioners. The announcement came as Commonwealth said that it was cutting its variable interest rate on mortgages, and introducing a new "economiser" home loan product.

The bank is currently 50.4 per cent-owned by the federal government, which has already sold two tranches of shares. Now, the government wants to sell all, or at least a large part of, its remaining holding. This is expected to happen in the next couple of months.

If the stake is sold in a single tranche, it will be one of the largest privatisations undertaken in Australia, raising more than A$4bn (US$3.3bn) for the federal government. However, the sale advisers' task has been eased by Commonwealth's willingness to undertake a A$1bn share buy-back in conjunction with the government's sale.

The terms and structure of the government's share sale have not yet been announced, but Commonwealth has already launched a television advertising campaign urging investors to arrange to receive prospectuses.

Earlier this year, Commonwealth warned that earnings growth in 1995-96 would be lower than that recorded in the past two years. It has also said that a A$1bn share buy-back alone would depress after-tax profits in the 1996-97 year by about A$48m (although earnings per share would be enhanced).

A further caveat was that directors said they could not rule out significant new price competition in the home loan market. Each 10 basis point reduction in the bank's margin on standard variable home loans would bring an initial annualised after-tax reduction in profits of $12m, Commonwealth said.

Meanwhile, North, the Melbourne-based mining and resources group, warned that profits in the year to the end of June would be down on those of the previous year.

It blamed project delays, commissioning difficulties, and lower sales from its iron and forest products divisions for the setback. In 1994-95, North made an after-tax profit of A$116.4m on revenues of about A$1bn.

The forecast came as North reported a drop in third-quarter profits to A$19m after tax, compared with A$31.7m in the same period a year earlier. Results from its iron ore operations fell from A$30.2m a year to A$24.4m this time. The decline was blamed on lower sales.

The impact of lost production resulting from damage caused by tropical cyclone Olivia will fall mainly in the last quarter.

The forest products unit also posted lower profits, at A$8.6m, compared with A$16.5m a year ago.

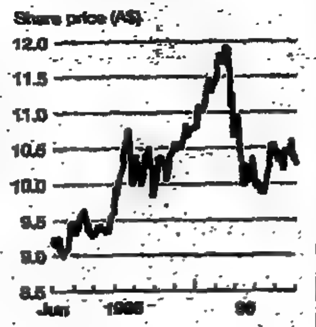
The gold and uranium interests produced higher profits, but the newly-acquired zinc operations in Sweden incurred a A$400,000 loss.

The third-quarter result meant that North's nine-month profit stood at A$51.3m after tax, compared with A$63.6m in the same period of 1994-95.

North said the longer-term outlook was "positive", although hindered to some extent by rising exploration costs and the strengthening Australian dollar.

Commonwealth Bank

Share price (A$)



Source: Datastream

Whirlpool signs Japan marketing deal with Daiichi

By Michiyo Nakamoto in Tokyo

Whirlpool, the US manufacturer of white goods, has strengthened its push in the Asia-Pacific region with a deal that will see its refrigerators sold through 300 outlets belonging to one of Japan's leading electrical goods retailers, Daiichi.

The two companies plan gradually to extend the range of Whirlpool goods sold through Daiichi to include washing machines, microwave ovens and air conditioners. The two companies will also co-operate on developing new Whirlpool products for the Japanese market, and Daiichi will give Whirlpool access to its nationwide network of after-sales service outlets.

The deal is a big step forward in Whirlpool's Asian strategy. The US company has been moving aggressively into the region with an investment of $350m over the past two years, and intends to become a significant competitor.

"By 2000, the Asian appliance market will be as big as North America and Europe combined, so it is a very important part of our growth strategy," said Mr William Marohn, Whirlpool president. Japan makes up 30 per cent of the total Asian appliance market.

For Daiichi, the deal represents expansion into a business that it forecasts will be worth Y10bn ($93m) in three years and Y50bn in five years, according to Mr Masataka Kubo, president.

US white goods makers have been pushing into the Japanese market, where large US refrigerators and noisy washer/dryers had previously been shunned.

With the sharp rise of the yen, and changing lifestyles, there is a growing acceptance of foreign appliances. The fact that more Japanese consumers are buying houses and spending more time at home entertaining friends means there is growing demand for large fridges that can handle large home parties, Mr Kubo says.

The Whirlpool products will be competitively priced, with some of the six models being offered at about half the price of equivalent Japanese products.

COMPANIES AND FINANCE

Telkom ahead 55% in first period

By Manuela Saragosa in Jakarta

Telkom, Indonesia's state-controlled domestic telecommunications company, said its unaudited net profit in the first quarter of the year rose 55 per cent to Rp307.17bn (US$132m) from last year.

Operating income in the period was up 32 per cent, which the company attributed to continued growth in lines in service – up 34 per cent on the first quarter of 1995 – and a corresponding increase in call volumes on the fixed line network.

Proceeds from Telkom's initial public offering in November last year caused interest income to shoot up more than 230 per cent with expenses net of other income dropping 87 per cent to Rp4.9bn as a result.

Telkom said operating revenues and expenses were expected to fall this year because of a change in its accounting treatment after the transfer of operations, assets and provision of telecoms services to five international consortia, which have been awarded the franchise to install and operate lines in different regions.

Revenues from the four regions managed by the international consortia were Rp296.5bn in the first quarter; the Kalimantan franchise – where the UK's Cable and Wireless recently replaced Telekom Malaysia as the international partner – will start contributing in the second quarter. Because of this delay, Telkom expects minimum guaranteed revenues from the consortia for 1996 of Rp1.42bn, compared with a previous forecast of Rp1.46bn.

Because the regional franchises are due to negotiate a one-time readjustment of the minimum revenues they must pay Telkom each month, Telkom has recorded an allowance of Rp51bn in its first quarter results. It believes this is "the maximum possible downward adjustment of the quarter's outcome".

Market hung-up on uncertainties

Share trading is nervous despite surging profits and prospects of more growth

Six months after the flotation of Indonesia's Telkom utility flopped because of poor demand, the authorities in Jakarta must be kicking themselves for bungling an opportunity.

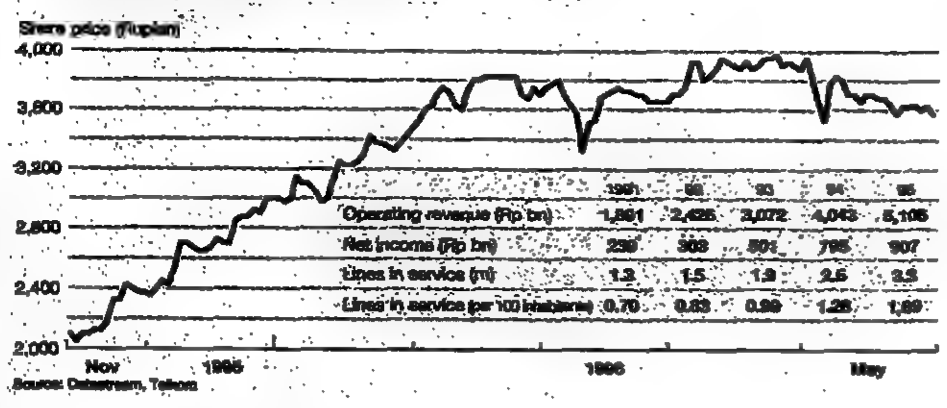
Telkom's shares have flourished in the after-market. Having been sold at a knock-down price of Rp2,050, they traded up as high as Rp3,950 in April before settling back to Rp3,550 by yesterday. It is a far cry from last November's launch when the international issue had to be halved to $1.6bn because telecommunications stocks were out of favour.

The natural temptation for the finance ministry must be to sell some of the shares that failed to find a buyer earlier and average up the return on the privatisation, brokers believe. Until mid-May the government faced a self-imposed restriction on the sale of further shares. With that obstacle now removed, many in the market are expecting it to come forward with another tranche.

"Now that the market's looking at a second issue, the stock's trading fairly nervously," says Mr Michael Chambers of brokers G.K. Goh Ometraco. "They should get it over and done with."

Mr Bacelius Ruru, the finance ministry official responsible for state enterprises, says the government is considering such a move, but has taken no decision. Brokers believe an issue could come in July or August – before the next scheduled privatisation, that of Bank Negara Indonesia.

Trying the patients of the state



Source: Datastream, Telkom

One encouraging aspect is that the company's results for 1995 – net income rose 14 per cent to Rp907bn ($389m) on turnover up 26 per cent to Rp5,105bn – were comfortably ahead of prospectus forecasts.

Having completed an early retirement programme at a one-off cost of Rp340bn in 1995, the company now has 5,200 fewer workers and is poised to make large efficiency gains. While it operated 60 lines per employee in the first quarter of 1995, a year later it has pushed the figure up to 98 lines, says Mr I. Nenga Seromah, head of investor relations.

Telkom has also negotiated joint operating arrangements with several international companies to develop the fixed line market in Indonesia's regions. Under the deals, the joint venture partners will finance the infrastructure development and hand the assets back to Telkom after 15 years. Telkom is scheduled to receive monthly payments from the joint venture operators.

This means it will enjoy the benefits of growth in Indonesia's still under-developed telecommunications market without running up large borrowings. Though gearing may rise to 40 per cent in the medium term, Mr Seromah says proceeds from the flotation and internally generated cash will be sufficient to fund Telkom's own capital expenditure for the next two years.

Still, brokers say there are uncertainties. One is that the contracts with the joint venture partners are subject to one-off revision. This could lead to lower than expected payments to Telkom. Negotiations for the franchise in Kalimantan were protracted by the dropping out of one partner, Telekom Malaysia, and its replacement by Cable and Wireless of the UK.

There have been reports that members of another consortium, involving Singapore Telecom and Bukaka, a local company which has the franchise for east Indonesia, are seeking better terms.

Also, one feature of last year's results was the increase of only 1.5 per cent in revenues per line. Telkom says this was because the 19 per cent increase in pulse production – the technical way in which usage is measured – was much lower than the 34 per cent increase in new line connections.

Telkom has been racing to connect new customers to make better use of lines installed to existing buildings, says Mr Seromah. That explains the emphasis on line growth.

But, says Mr James Spence of W.I. Carr, it is natural for growth in line revenues to drop over time as more marginal customers are connected. At Telkom this phenomenon may have started earlier than the stock market expected. In short, he says, while Telkom does have striking growth prospects, there are risks.

W.I. Carr still has a buy recommendation on Telkom and is forecasting a 70 per cent jump in net income this year to Rp1,532 before growth levels off in 1997. That puts it on a forward price-earnings multiple of some 22 times, compared with 17.5 times for the market as a whole.

At that price the shares are not exactly cheap. Buyers who spurned the issue first time round are unlikely to receive quite such a bargain when and if the second offer finally comes along.

Peter Montagnon and Manuela Saragosa

Tisco surges as prices and output improve

By Kunal Bose in Calcutta

Tata Iron and Steel (Tisco), India's second-largest producer of steel, reported net profits up 101 per cent to Rs5.66bn ($162m) in the year to March. It attributed the rise to better prices for its products and an improvement in operational efficiency and cost control.

The results were well ahead of analysts' expectations, and the share price closed up Rs6 yesterday at Rs241.50.

Sales rose 27 per cent, from Rs46.27bn in the previous year to Rs58.54bn, and operating profits climbed 47 per cent, from Rs7.62bn to Rs11.17bn. Income from steel exports rose from Rs5.27bn to Rs7.3bn. The company raised the dividend by Rs1 a share to Rs4.5, which claimed Rs1.57bn.

The Jamshedpur plant, which reaped the "full benefits" of the third phase of modernisation last year, raised crude steel production 8 per cent to 3.02m tonnes and improved saleable steel production 11 per cent to 2.71m tonnes. The company sold 2.49m tonnes of steel, up 11 per cent on the previous year.

The Rs23bn fourth phase of modernisation, now under way, will raise the capacity of saleable steel to 3.2m tonnes a year from 2.7m tonnes. The modernisation is also designed to change the product mix in favour of items offering higher margins.

Casino to restructure debt with bond issue

By Andrew Jack in Paris

Casino, the French retail group, is to launch a FFr3.4bn ($656.8m) bond issue on June 10 in an effort to restructure its debt and reinforce its capital base.

The bonds, with a nominal value of FFr220 and a duration of five years, will pay an annual coupon of 4.5 per cent, or FFr9.9. Each will carry the right for a conversion into shares at FFr220 each over the coming three and a half years.

It has also announced that Mr Antoine Guichard, 70, the head of the board and grandson of the founder of the group, will step down. He is to be replaced by Mr Georges Plassat, 47, the vice-chairman.

In addition, the group confirmed at its annual meeting that its net income for 1995 was up 29 per cent to FFr633m on turnover ahead 3 per cent to FFr64.1bn.

Casino said it planned to reimburse a series of convertible bonds at FFr262.50 with effect from June 18 this year. Investors wishing to convert the bonds into equity will be able to do so until September 30.

The details come during a time of intense change in the French retail sector. The government is reinforcing measures designed to tilt the balance of power away from large hypermarkets and towards smaller shopkeepers.

The 401(k) market nears maturity

Maggie Urry analyses one of the fastest growing segments of the pension fund investment sector

When the writers of the US tax code added section 401(k) in the early 1980s, they might not have guessed the number would enter the language of investment managers.

Now the tag 401(k) has become shorthand for perhaps the fastest growing segment of the pension fund investment market. It is an area fund managers are fighting over.

As Fidelity Investments, the leading provider of 401(k) plans with over $100bn in assets under management, wrote in its recent annual report, "the 401(k) retirement market became much more competitive from both a product and a pricing standpoint as more firms went after this market".

Or as Mr William Chapman, president of the Retirement Plans group at Zurich Kemper Investments, puts it, when a market is growing at 15 to 18 per cent a year and showing no signs of slowing, it is not going to remain a secret.

In a 401(k) pension plan, an employee contributes to a personal pension plan, with the employer matching those up to a certain level. The employee chooses how the money will be invested, usually by picking from a range of options which might include a bond fund, an index fund, an equity growth fund, a money market fund, and perhaps the employer's stock.

The options are usually provided by mutual funds, and the plan may be managed by a fund group, or a bank, insurance company or investment consultant.

The attraction to the employer of defined contribution plans are that they are cheaper to run, and, perhaps more importantly, pass the investment performance risk to the employee. Under a defined benefit scheme the employer must top up the fund if it does not produce the returns needed to pay the promised pensions. With a defined contribution scheme, it is up to the employee to decide how much to invest and where.

The advantage to employees is that they control the plan, can choose investments which suit their needs, such as the nearness of retirement, and can take their pension with them if they change jobs.

More than 10 years after 401(k)s became available, most large companies have them. Estimates by Access Research and Goldman Sachs suggest that 96 per cent of companies with over 5,000 employees offer 401(k) plans.

In these cases, fund managers can are only able to win new business by taking it from competitors.

In 1995, Fidelity did that, winning the General Motors

FUND MANAGEMENT

and Ford plans, which increased the number of individuals' accounts it manages by 500,000 to 3.5m. Both had been managed by banks, but moved to Fidelity.

However, at the smaller end of the scale, only a third of companies with fewer than 500 employees have 401(k) plans.

Not surprisingly, many fund managers are targeting those smaller companies. Fidelity, for instance, is this year making a particular play for companies with fewer than 100 employees. The Oppenheimer Fund group, in conjunction with its parent Mass Mutual, the life insurance company, last July launched a 401(k) "turn-key" product aimed at companies with under 300 employees.

Meanwhile, Zurich Kemper's Mr Chapman says its focus has always been on small companies but is shifting to larger ones. It manages 6,000 plans, totalling assets of over $2bn, with an average of fewer than 100 people in each. "Many companies have avoided them," says Mr Chapman, "because it is difficult to make profits. We've been very satisfied. Now other vendors are moving into our market, we're crossing the street and moving up".

Profits are hard to come by, as the costs involved in running a 401(k) plan for a small company are proportionately higher than for a large one. Mr John Stoma, director of retirement plans at Oppenheimer, reckons it can take six years to make money in the small plan market. The market is "attractive but daunting" he says. Competition is fierce and "price is a big factor," he says.

The critical element in winning and retaining 401(k) business, according to Mr Milton Berlinski, a vice-president at Goldman Sachs, is customer service. For instance, leading managers usually give the individual participants a toll-free phone number and they can call at any time.

This requires a large investment in technology and in people to answer the telephone. Mr Robert Reynolds, president of *Fidelity's Institutional* Retirement group, says Fidelity has spent over $50m on developing technology for its 401(k) business. It is soon to launch an Internet service to enable investors to check their accounts or adjust the allocation of their contributions.

But to make profits, that service has to be provided at low cost. Mr Chapman argues a manager must be "very cost effective to make a profit in small plans" and that means offering a standardised product.

Economies of scale are another solution. "It is truly a business where the larger you are the lower cost you can offer to the market," Mr Reynolds says. At Fidelity, the aim is to spread into related areas such as managing employee health benefits. And it is making an assault on international markets. They may not be called 401(k) plans anywhere else, but the principle of employee directed portable pensions is being adopted around the world.

FACES

Why Dik Dusseldorp is commuting from Tahiti

Dik Dusseldorp would probably prefer a different epithet, but the 77-year-old Dutch-Australian can rightly claim to be the godfather of property securitisation, writes Simon London. His campaign to create a new breed of property investment vehicles in the UK received a boost last week when the London Stock Exchange published draft rules enabling property unit trusts to seek a full listing.

If the Securities and Investments Board gives him the regulatory nod, Dusseldorp plans to raise at least £200m ($300m) from institutions to create the first listed property unit trust.

Born in Utrecht, Dusseldorp ran away to sea in his early teens and trained as an engineer before moving to Australia.

In the 1950's he founded Lend Lease, the property and financial services group which now has market value of over A$4bn ($3.2bn).

In 1971, he floated General Property Trust, effectively spinning off Lend Lease's property portfolio into an investment trust-style vehicle.

Lend Lease kept the more risky business of property development, as well as managing GPT, which is now the cornerstone of its investment division.

Six years later Dusseldorp repeated the trick in the US by launching International Income Property, one of the first real estate investment trusts to invest in buildings rather than mortgages.

Today the US equity REIT market is worth about $45bn.

Dusseldorp's dream is to create similar tax-efficient property investment vehicles in the UK.

Despite the strain of commuting between London and Tahiti, his home since retiring as chairman of Lend Lease in 1988, his persistence appears to be paying off.

Dik Dusseldorp: ran away to sea in his early teens

Hashimoto in a furore

Shunsaku Hashimoto, the recently installed chairman of the Federation of Bankers Associations of Japan, has become the latest target of the country's politicians in an ongoing feud between the political and financial establishments, writes Emiko Terazono.

Mr Hashimoto, 65, succeeded Mr Toru Hashimoto (no relation) of Fuji Bank as the head of the influential industry federation in April.

He is Sakura's second president since it was created in 1990 through a merger between Taiyo Kobe Bank and Mitsui Bank.

Mr Hashimoto, who is from the Taiyo Kobe camp, spent most of his career on the domestic side of the business and was installed as Sakura's president in 1994.

He faced mounting criticism last week from members of the cabinet over comments implying that politicians should leave monetary policy up to the Bank of Japan.

His words were designed to counter calls by Seiroku Kajiyama, chief cabinet secretary, for financial institutions to review their low interest rates on behalf of depositors.

Those who know Hashimoto well have been surprised by the furore, as he has a reputation for being reserved and meticulous, rather than the aggressive and arrogant banker the Japanese media and politicians have made him out to be. He showed his flexible side when he quickly retracted the remarked and apologised.

But with politicians expected to keep up the pressure on banks ahead of the general election that must be held within a year, it remains to be seen whether Hashimoto can defend the interests of the industry over deposit rates and the jusen housing lenders' liquidation.

Halliday the Harlequin

If anyone personifies the symbiotic relationship between the City of London, the UK's financial hub, and the sport of rugby union it must be Simon Halliday, the former England international who has just been appointed the new head of UK equity sales at UBS, writes Patrick Harverson.

Although top rugby players have been a common sight in the Square Mile for years – among them Andy Ripley, Tony Underwood, Peter Winterbottom and Nick Popplewell – even in the well-bred world of rugby the likeable Halliday's aristocratic bearing and "City gent" image made him stand out.

The City's close ties to the sport allowed the 35-year old Oxford-educated Halliday to maintain a top-class rugby career.

Picked 23 times for England as a centre and wing three quarter, he played club rugby for Bath and later Harlequins.

Although a recent ankle injury ended his playing days, he is still involved in the game as a coach at Harlequins.

However, even that part-time job may now be at risk following his elevation to the job of running UBS's 30-strong UK equity sales team.

Juggling his rugby and professional interests was something Halliday became adept at, although he says when it came to the crunch his job always came first. In 1987, for example, he missed the World Cup because he could not afford to be away from the office for too long.

Some might think Halliday's handsome compensation as a City stockbroker would help ease the pain of having retired just as rugby was going professional, but he says he has no regrets at missing out on the sport's new era.

"I couldn't spend hours on the training pitch. I always loved playing rugby on Saturday on the basis that on the following Monday I was doing something completely different."

Martin Falkner's electric run

May has been a good month for Martin Falkner, director and head of utility advisory in the corporate finance department at BZW, the British investment bank, writes Simon Holberton.

Fresh from advising Avon, a joint venture between Cynergy and General Public Utilities, both of the US, about their agreed £1.7bn bid for Midlands Electricity, he is now in the thick of advising Southern Electric on its £1.6bn agreed bid for Southern Water, the south-east of England water utility.

Falkner, 37, said BZW worked on the Midlands deal for nine months before bringing it off. He has worked on the Southern Water deal for a "rather shorter" period of time. "We called them and made the suggestion," he said. "But it was coincident with what they were already thinking about. Their traditional advisers, Rothschilds, were conflicted as they were advisers to Sothern Water so we stepped in."

He stresses, however, that the deals have been a group effort by BZW's corporate finance team.

Falkner has worked in the utilities area for much of his professional life. He joined BZW in New York in 1988 where he was a member of the energy and utilities group.

The New York group advised on Oryx Energy's $1.3bn share buyback and capital reconstruction, Tenneco's $500m spin-off of Albright and Wilson, the specialty chemicals company, , and Enron's move into India.

"The Enron transaction was a landmark deal," he says.

"We designed the capital structure of the deal and its financing."

Falkner returned to his native UK at the end of 1994, having in the meantime acquired an American wife and a liking for starched white shirts. He promises to give up the latter for "stripes on stripes" as soon as they all wear out.

FINANCIAL TIMES MARKETS THIS WEEK

Global investor / Tony Jackson in New York

View from stakeholder frontline

The debate over stakeholder power has gone quiet on both sides of the Atlantic, but it is not dead yet. The idea is sometimes promoted as the next stage in corporate governance. In reality, it is an attempt to put the clock back.

The real battleground in corporate governance remains the shift of power from managers to investing institutions and this is set out in a new book from Mr Michael Useem*.

A professor of management from Pennsylvania's Wharton School, Mr Useem has spoken privately to a lot of people on both sides of the management-investor divide. In public, their rhetoric is all about the common goal of shareholder value. The private reality sounds more like trench warfare.

Mr Useem points out that the people at the top of corporations got there because they are experts in the exercise of power. Faced with a competing power play from the institutions, they have produced a whole battery of defences.

They accuse fund managers of short termism, say they lack management experience and do not fully represent the funds' beneficiaries – the ultimate owners. A less obvious tactic involves replacing awkward investors with more docile ones. First, this means increasing the number of individual shareholders. Second, it means easing out the more activist funds.

In terms of activism, Mr Useem argues, US funds fall into three broad classes: public service pension funds; mutual funds and other investment companies; and private sector pension funds.

The public sector funds form the spearhead of the activist movement. They report ultimately to elected politicians and are mostly underfunded. This puts them under extra pressure to perform, since the alternatives are cuts in public services or higher taxes.

At the other extreme come the company pension funds. They report ultimately to corporate managers, whose interests are opposed to investor power and whose instincts are to close ranks with fellow managers. Mutual funds and insurers come in the middle.

Tactics for adjusting the shareholder register vary. The simple method is to put extra effort into courting the private pension funds. There have been more devious approaches: Mr Useem suggests that in the days of apartheid, one or two may have deliberately retained subsidiaries in South Africa, thus barring most public funds from investing in them.

Despite the best efforts of managers, the onward march of investor power seems inevitable. One reason is the explosive growth of the mutual fund industry. Granted, most mutuals are not particularly activist, but they are plainly more powerful than the individual investors whose shares they are buying up.

It is in the light of this shift, and the corresponding weakening of managerial power, that the stakeholder movement must be judged.

Generally, managers are keen on the notion of stakeholders: it gives them discretion to balance the interests of all the people with whom they do business. It therefore increases their power while reducing their accountability.

The rise in investor power need not go on indefinitely. Indeed, there are forces at work which could undermine it.

This argument is advanced by Ms Margaret Blair of the Brookings Institution, the Washington think tank. The shareholder model, she says, is primarily designed for the formation of fixed capital. It allows investors to put money into buildings, plant and equipment, and guarantees their right to the profits.

But that is not the way US business is going. Little by little, physical capital is giving way to intellectual capital. In the terminology of Silicon Valley – where the new model is most apparent – software is taking over from hardware.

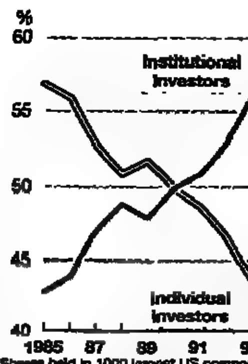
Intellectual capital is becoming increasingly footloose. Teams are formed within a company for a specific project, then individuals move on. In time, companies may form common pools of intellectual capital, from which workers may be borrowed.

Meanwhile, physical capital is being increasingly deployed in joint ventures and corporate alliances. Eventually, Ms Blair suggests, companies may specialise in plant and equipment to lease out, much as aircraft or railroad trucks are leased today. These companies may well be a home for investor capital. Those which consist only of employees are more problematic.

In such a comparatively rootless world, there is less room than ever for the stakeholder. The whole argument gives the impression of politicians trying to catch hold of the constantly shifting world of capitalism. With that world going through its most Protean phase in generations, they have less chance than ever of nailing it down.

**Investor Capitalism: how money managers are changing the face of America, by Michael Useem. Basic Books.*

The rise of investor capitalism



Shares held in 1000 largest US companies
Source: Business Week, Useem

Total return in local currency to 30/5/96

	US	Japan	Germany	France	Italy	UK
	% change over period					
Cash						
Week	0.10	0.01	0.06	0.07	0.18	0.12
Month	0.45	0.05	0.28	0.32	0.76	0.51
Year	6.00	1.06	4.50	6.88	11.03	7.25
Bonds 3-5 year						
Week	-0.29	-0.03	-0.02	-0.1	0.17	-0.21
Month	0.04	0.93	0.22	0.26	1.55	0.25
Year	4.25	2.08	8.75	12.41	21.41	8.60
Bonds 7-10 year						
Week	-0.38	0.18	-0.3	-0.36	0.34	-0.57
Month	-0.05	1.46	-0.25	-0.1	2.34	-0.02
Year	3.13	1.9	8.69	14.09	29.31	7.45
Equities						
Week	-0.6	0.8	-1.8	-0.1	0.8	0.0
Month	2.6	-2.4	0.4	-1.1	-1.5	-1.8
Year	30.7	31.8	20.5	14.8	5.0	18.0

Source: Cash & Bonds - Lehman Brothers. Equities-© FT/Extel Index Unit. The FT/S&P Actuaries World Indices are jointly owned by FT-SE International Limited, Goldman Sachs & Co., and Standard & Poor's.

COMPANY RESULTS DUE

KLM loss in fourth term likely to narrow

KLM Royal Dutch Airlines, the Dutch national carrier, is expected to report tomorrow net profit of Fl 519m-Fl 526m ($300m-$304m) in the year to March, compared with Fl 470m a year earlier.

KLM's fourth-quarter net loss is expected to narrow to Fl 14m-Fl 20m from Fl89m a year earlier, said analysts, after the freeing up of Fl 33m set aside earlier as provisions against taxes. Revaluation of the stake in Northwest will also help mitigate the expected fourth-quarter loss, and add Fl 255m to full-year results, said one analyst.

AFX, Amsterdam

■ **SMH:** Analysts await confirmation on Friday from the Swiss watchmaker's chairman, Mr Nicholas Hayek, that sales this year are on course for growth of up to 10 per cent in local currency terms, after turnover slipped 1 per cent in 1994-95. The rise is being driven largely by double-digit growth in the high-price Omega brand, and the lower value of the Swiss franc against the dollar and the lira lifting operating margins after two years of decline.

■ **National Grid:** The UK transmission company is expected to announce annual pre-tax profits of up to £595m ($904m) in its first set of results since it demerged from the 12 regional electricity companies last December. It is expected to announce a dividend increase to 10.35p, in line with forecasts.

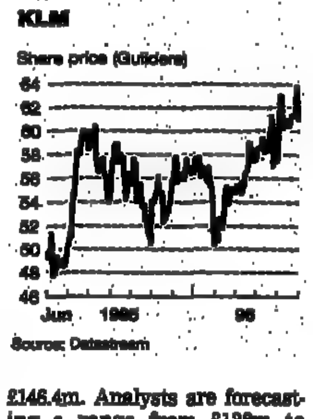
■ **Thames Water:** The UK utility gave a good indication of its expected results when it announced a £95m restructuring charge to reverse its diversification into overseas contracting in March. At the time it expected profits in the year to March 31 to rise by about twice the rate of inflation. On this basis it is expected to announce tomorrow pre-tax profits of about £320m, against £304m a year ago. A dividend of more than 28p is anticipated.

■ **Vodafone:** The UK's leading mobile phone operator is expected to announced pre-tax profits of about £455m tomorrow giving earnings per share of 9.8p and a dividend for the year of 4p.

■ **De La Rue:** The UK banknote and security printing group is expected to produce at best flat profits when it reports annual results tomorrow. The company warned in November that it was unlikely to beat last year's pre-tax figure of £146.4m. Analysts are forecasting a range from £138m to £152m, with most bunched around £142m.

KLM

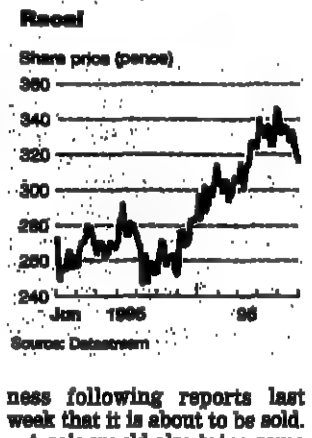
Share price (Guilders)



Source: Datastream

Racal

Share price (pence)



Source: Datastream

■ **Emap:** Final results from the UK media and exhibitions group are expected to produce pre-tax profits of about £85m, against £63.9m, when it reports tomorrow. However, most analysts' will focus on the future of the regional newspaper business following reports last week that it is about to be sold.

A sale would also bring some relief to the group's balance sheet.

A £200m price tag has been mooted, which would go some way to alleviating the indebtedness brought about by Emap's acquisitive track record. This has taken it into business and consumer magazines in the UK and France, radio and exhibitions.

■ **Yorkshire Water:** Buy-back expectations will attend Mr Brandon Gough's first results announcement as chairman of the UK utility on Wednesday. The company is expected to capitalise on the permission it received for a 10 per cent share buy-back last year.

Exceptional costs of some £47m relating to problems dealing with last year's drought are expected to dent profits to about £140m, down from £142m last year.

■ **Racal Electronics:** Annual results from the UK data communications and electronics group on Wednesday are likely to show an increase of about 20 per cent to £70m.

However, the rise, which will be underpinned by the company's interest in Camelot, the National Lottery operator, is likely to mask some underlying concerns among investors over the performance of its core businesses.

■ **3i:** Britain's largest equity investor in private companies is expected to report a 21 per cent rise in its net asset value to about 420p when it reports on the year to March 31 on Thursday. The venture capitalist was boosted by strong performances from the smaller companies in which it specialises, and small company shares have risen strongly since 3i's year-end.

■ **Boots:** The cash pile will be in focus when the UK chemists group presents its annual figures on Thursday, with investors wondering whether it will be used for acquisitions or returned to shareholders. Analysts are looking for profits of £495m to £505m for the year to March.

■ **Pilkington:** The UK glassmaker which publishes results for the year to the end of March on Thursday, has done its best in recent months to spread caution around the City.

In March it warned that trading conditions were becoming "difficult" and announced a restructuring which will include a £155m charge to be taken in Thursday's figures. Investors will want to see evidence that this latest rationalisation is bearing fruit despite the downturn in the glass market.

Analysts expect profits of about £200m before charges and tax.

■ **Siebe:** Strong demand for plant automation equipment is expected to fuel a near 20 per cent increase in profits at the international controls and temperature appliances group. Full-year figures on Thursday are likely to show pre-tax profits up from £275.1m to £327m-£330m.

INTERNATIONAL EQUITIES By Antonia Sharpe

Investors have a yen for asceticism

Architects are probably banned from the boardrooms of Japanese banks these days, but those banks contemplating equity-linked financing would be advised to draw up their plans along the clean lines of that maestro of asceticism, Tadao Ando.

In the coming months, international investors will be asked to take up billions of dollars of convertible bond offerings from Japanese banks as they start the process of replenishing balance sheets severely depleted by bad property-related loans.

"Japanese banks need to recapitalise and convertible bonds are the ideal vehicle because the dilutive effect on earnings and dividend yield is deferred," says Mr George Dowdye, a Japanese convertible salesman at SBC Warburg.

Even if Japanese banks wanted to issue straight equity, it is believed such plans would be blocked by the Ministry of Finance for fear of upsetting the fragile recovery in the Japanese stock market, and because they would interfere with the government's privatisation plans.

Last week Sumitomo became the third Japanese bank to launch a convertible bond offering – a Y100bn five-year issue – since September when Mitsubishi re-opened the market with a $2bn seven-year offering. That was followed in March by a Y100bn eight-year offering from Tokai Bank. The lack of a benchmark for such offerings has resulted in each trying different structures, all of which have been criticised, either because they were too cheap or they caused the underlying share price to underperform because of manipulation by hedge funds.

Mitsubishi's offering, for example, was so cheaply priced it was hugely over-subscribed, resulting in two downward revisions in the coupon.

By contrast, the complex structure adopted by Tokai Bank – in particular the five-year non-conversion period – put off many mainstream investors and left the bonds vulnerable to hedge funds. The bank's share price fell by 12.5 per cent between launch and pricing because of heavy arbitrage by hedge funds.

Tokai's experience prompted Sumitomo to go back to Mitsubishi's structure which allows immediate conversion and has a mechanism which protects investors against any fall in the underlying share price.

Even though the indicated coupon on Sumitomo's bond - between 1¼ and 1¾ per cent – is well below Mitsubishi's 3 per cent coupon – the terms were still deemed to be so favourable that the bond was quoted in the grey market at 106 last week, compared with an issue price of par.

The strong investor interest in the bond, both from long-term investors and from hedge funds, has also raised the possibility that the coupon will be cut to as little as ¾ per cent. But even the prospect of a cut in the coupon failed to deter arbitrage which resulted downward pressure on Sumitomo's share price last week.

Some bankers question the need to include the so-called "downward reset" mechanism on the bonds, the main advantage of which is to allow the issuer to get away with a lower coupon. They note that there is a greater likelihood of Japanese bank shares rising rather than falling in the near term.

This opinion is also said to be held by international investors who have been seeking to increase their weighting of Japanese bank shares, encouraged by recent moves by the sector to write off bad loans and adopt a strategy to increase the return on equity.

With some Y2,000bn to Y3,000bn of convertible bond issuance expected from Japanese banks over the next two years, investors are set to have the upper hand. But banks that come up with a structure which will attract buyers but not give the bonds away too cheaply will be the winners.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FT-SE International Limited and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY MAY 31 1996 US Dollar Index	%chg since 29/12/95	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 29/12/95	Gross Div. Yield	THURSDAY MAY 30 1996 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (79)	207.32	9.1	198.38	141.67	164.64	172.68	1.6	4.27	205.82	198.64	139.85	163.80	171.89	212.18	162.68	167.35
Austria (25)	194.35	11.3	185.96	132.80	154.34	154.24	18.8	1.82	191.70	185.19	130.39	152.71	152.62	199.28	168.11	193.97
Belgium (27)	210.18	0.5	201.12	143.62	166.91	163.02	7.4	4.08	209.00	201.90	142.15	166.49	162.39	215.61	186.06	194.63
Brazil (28)	170.62	23.7	163.28	116.59	135.49	313.53	27.1	2.07	170.14	164.36	115.72	135.53	312.07	171.06	123.97	134.89
Canada (99)	164.63	10.9	157.53	112.49	130.74	163.45	11.5	2.33	164.66	159.07	112.00	131.17	163.18	164.55	134.14	141.62
Denmark (30)	294.78	2.1	282.06	201.42	234.09	236.65	8.7	1.89	294.80	284.79	200.51	234.84	237.32	305.17	275.65	280.77
Finland (23)	200.53	7.2	191.88	137.03	159.25	198.64	16.5	2.51	193.92	187.34	131.90	154.48	192.52	278.11	171.73	207.93
France (97)	195.74	9.1	187.29	133.75	155.44	158.94	15.5	3.02	195.03	188.41	132.65	155.37	158.72	199.39	167.70	184.83
Germany (60)	168.61	3.0	161.34	115.21	133.90	133.90	9.9	1.87	167.18	161.50	113.70	133.18	133.18	174.38	153.83	153.83
Hong Kong (59)	440.38	13.6	421.38	300.92	349.72	437.47	13.7	3.25	436.38	421.56	296.80	347.63	433.47	451.19	348.81	369.01
Ireland (16)	262.97	10.8	270.76	193.36	224.72	251.15	11.8	3.41	278.74	269.27	189.58	222.05	249.32	282.97	228.91	226.91
Italy (58)	82.86	12.6	79.39	56.69	65.88	95.91	9.8	2.29	82.57	79.77	56.16	65.78	95.55	84.63	67.22	75.90
Japan (481)	155.66	0.5	148.95	106.37	123.62	106.37	5.3	0.72	155.64	150.35	105.86	123.99	105.86	164.68	137.75	149.95
Malaysia (107)	557.26	14.9	533.22	380.78	442.54	536.23	13.0	1.67	557.04	538.13	378.87	443.76	536.23	595.09	425.77	540.24
Mexico (18)	1257.41	21.4	1203.16	859.20	998.54	10196.85	16.9	1.38	1277.98	1234.59	869.22	1018.07	10395.06	1325.65	791.99	935.22
Netherland (19)	298.67	9.5	285.78	204.08	237.18	233.33	18.9	3.08	295.86	285.81	201.23	235.69	231.58	298.67	245.79	247.44
New Zealand (15)	78.08	-2.0	74.71	53.35	62.00	61.02	-5.7	4.50	78.43	75.77	53.35	62.48	60.95	85.49	76.26	81.24
Norway (35)	252.00	9.0	241.13	172.19	200.12	223.42	12.7	2.03	250.04	241.55	170.07	199.19	222.47	255.75	221.17	221.54
Singapore (44)	417.36	2.5	399.36	285.19	331.44	271.13	2.1	1.40	417.18	403.02	283.75	332.34	271.13	465.21	355.81	403.30
South Africa (45)	362.67	-5.9	347.02	247.81	288.00	345.61	12.6	2.07	356.05	343.97	242.17	283.64	340.47	437.76	338.81	341.37
Spain (37)	175.79	6.4	168.20	120.12	139.60	171.69	13.1	3.24	176.29	170.31	119.90	140.44	172.48	179.85	145.15	145.54
Sweden (48)	352.76	13.0	337.54	241.05	280.14	351.44	14.8	2.31	347.27	335.48	236.19	276.64	348.31	358.08	256.60	256.60
Switzerland (38)	233.06	-1.2	223.01	159.26	185.08	180.95	7.6	1.64	230.78	222.94	156.97	183.84	180.06	252.34	191.24	195.63
Thailand (46)	180.04	7.0	172.27	123.02	142.97	176.82	7.5	1.86	180.09	173.97	122.49	143.46	178.92	198.95	146.74	170.28
United Kingdom (201)	235.81	2.3	225.64	161.13	187.26	225.64	2.5	4.11	233.36	225.46	158.74	185.92	225.46	237.43	210.29	213.89
USA (627)	272.56	8.5	260.80	186.24	216.44	272.56	8.5	2.17	273.50	264.22	186.02	217.88	273.50	276.24	215.77	218.21
Americas (772)	249.09	8.8	238.35	170.21	197.81	209.40	8.8	2.16	249.94	241.45	170.00	199.11	210.10	252.40	197.68	199.88
Europe (715)	210.20	4.6	201.13	143.63	166.92	184.42	8.5	3.05	208.40	201.32	141.74	166.01	183.82	211.35	187.00	187.00
Nordic (136)	303.16	9.9	290.08	207.15	240.75	265.60	13.6	2.24	298.73	288.58	203.18	237.97	263.09	303.16	248.36	248.36
Pacific Basin (831)	169.01	2.3	161.72	115.49	134.22	117.79	5.8	1.17	168.81	163.08	114.82	134.48	117.23	177.01	148.86	160.04
Euro-Pacific (1546)	186.07	3.4	178.04	127.14	147.76	143.04	7.0	2.05	185.19	178.91	125.96	147.53	142.47	190.57	166.51	171.17
North America (726)	265.86	8.6	254.39	181.67	211.13	265.20	8.6	2.17	266.75	257.70	181.43	212.50	266.07	269.33	211.12	213.47
Europe Ex. UK (514)	191.24	6.0	182.93	130.67	151.87	159.89	12.0	2.47	189.78	183.33	129.08	151.19	158.95	192.57	168.29	168.29
Pacific Ex. Japan (350)	292.73	10.6	280.10	200.02	232.46	252.04	8.1	3.03	291.10	281.22	197.99	231.90	250.66	296.68	243.59	256.82
World Ex. US (1736)	187.41	3.6	179.33	128.06	148.83	147.59	7.5	2.06	186.54	180.21	126.88	148.60	147.00	191.53	167.38	171.79
World Ex. UK (2162)	211.51	6.0	202.38	144.53	167.96	179.21	8.5	1.91	211.45	204.27	143.82	168.45	179.08	213.05	180.73	183.09
World Ex. Japan (1882)	245.79	7.3	235.17	167.94	195.18	232.88	8.8	2.52	245.42	237.08	166.92	195.50	232.95	248.49	205.87	208.47
The World Index (2363)	213.70	5.6	204.48	146.02	169.70	183.57	7.9	2.10	213.45	206.20	145.18	170.04	183.42	214.70	183.83	185.79

 Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.54 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local); Brazil, Thailand and Americas: Oct 31, 1994 = 180.44 (US $ Index), 164.07 (Pound Sterling) and 149.94 (Local). CONSTITUENT CHANGES DURING THE WEEK ENDING 31/5/96: Addition: Tupperware Corp. (Medium-Small Cap) (USA). Deletion: Ampolex (Australia). Markets closed 31/5/96: Malaysia, Singapore and Thailand.

MARKETS: This Week

NEW YORK

Last week was a challenging one for the US securities markets. By the end of it, the yield on the long bond was barely below 7 per cent, and had crossed that line three times during the day.

Stocks took their lead from the bond market and on three days out of the four that the markets were open, the Dow Jones Industrial Average fell more than the 50 points needed to trigger the "uptick" rule.

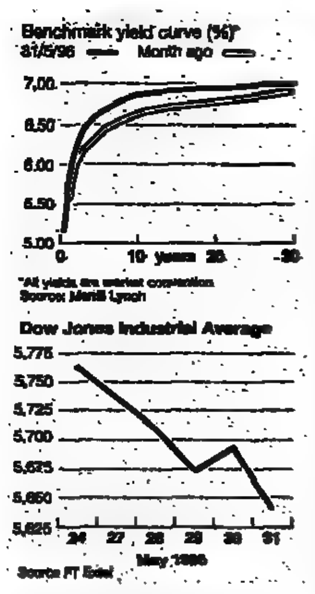
What has made the markets nervous is the increasing expectation of a tightening of interest rates, perhaps as soon as the early July meeting of the Federal Reserve policy makers. Stronger than expected housing statistics and a revision in first-quarter GDP, which indicated that second-quarter growth would also be faster than predicted, raised the concern.

But perhaps more worrying was the flood of hawkish remarks from a number of Federal Reserve officials which led the market to think it was being prepared for an interest rate increase.

The next big event for the markets will be the release of employment data for May on Friday. In a survey by MMS International, the consensus of forecasts is that non-farm payrolls will have risen by 170,000, a jump from the 2,000 figure reported for April.

However, there is a wide range of forecasts and the market could be wrong-footed. Forecasts for the unemployment rate centre on 5.5 per cent, up slightly from 5.4 per cent in April.

The markets will also focus on the National Association of Purchasing Management survey, due today. The index regained the 50 per cent level in April, suggesting that the manufacturing sector is improving, and another number above 50 is forecast for May. The MMS consensus is for 51.2 per cent.



LONDON

The UK equity market has been in a state of drift for some time, with the FT-SE 100 index seemingly stuck in a 3,650 to 3,850 range. An occasional bid battle, such as last week's twin offers for Southern Water, may excite investors in individual sectors, but does little to lift the overall market.

Further bids in the utilities sectors are anticipated ahead of a likely Labour government, which would be expected to frown on such mergers and profit levels in the sector. But there is a "been there, done that" feel to such news. Much more exciting for investors would be the emergence of one of the rumoured bids in the banking or insurance sectors.

Without such a deal, it is hard to see how investors will be lifted out of their torpor this week. The main event will be the meeting between Mr Kenneth Clarke, the chancellor of the exchequer, and Mr Eddie George, the governor of the Bank of England, on Wednesday. But few expect a move on interest rates to emerge from the meeting.

Economic evidence appears to suggest a reviving UK economy but broad monetary growth aside, there have been *few heralds of inflationary* pressure to justify the political risks involved in raising rates.

Nevertheless, as the well-known *monetarist* Mr Tim Congdon points out: "Growth in M4 of about 10 per cent is not consistent with inflation at 2.5 per cent in the long run."

With little domestic news to interest either gilt or equity investors, eyes will turn to Friday's US non-farm payrolls data for May.

In recent months, these erratic figures have shown the capacity to move bond markets sharply and if the yield on the 30-year US Treasury bond shifts back decisively over 7 per cent, it will be hard to see gilts or equities making progress.

FRANKFURT

After an unusually quiet week, uncertainty continues to dampen investors' enthusiasm. The Bundesbank last week failed to provide a much-needed impetus, leaving the securities repurchase rate unchanged at 3.3 per cent for at least another two weeks.

It is clearly waiting for more economic data, including money supply figures, and perhaps an indication of the outcome of the public sector wage round, before deciding whether and when to cut the repo rate.

Inflation seems to have bottomed out, edging up in western Germany from an annualised 1.2 per cent in April to 1.5 per cent in May, largely due to rising energy prices and the depreciation of the D-Mark against other currencies.

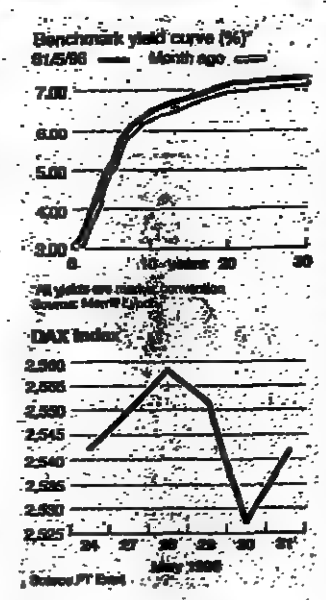
The government is still sticking to its forecast of a rebound in the economy in the second half, a view that the Bundesbank is known to share.

This expectation is partially reflected in the equity market, even though the DAX index appears stuck around the 2,500 mark.

The make-up is not uniform, however. As investors have hunted for bargains, medium-sized DAX 100 stocks have outperformed blue chips.

After heavy restructuring and stepping up foreign investment, many German blue chips have proved resilient – even during a recession. But given the current strong position, the market sees little upside potential.

Small and medium-sized companies, usually more reliant on Germany as a market and a source for labour, tend to be more sensitive to the domestic cycle. And if the economy turns up this summer, as not only the government and the Bundesbank hope, that sector could benefit over-proportionally.



TOKYO By Emiko Terazono

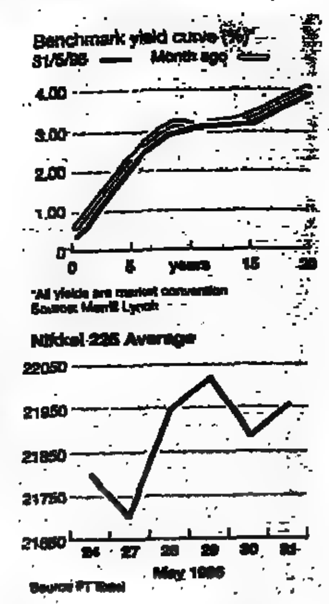
Trading on Tokyo's financial markets are expected to remain relatively quiet as investors await the release of the Bank of Japan's tankan, or quarterly survey of business confidence, due on Friday.

Most economists expect a small improvement in sentiment. "We expect a modest improvement in business sentiment among both manufacturers and non-manufacturers due to rising output and profits and an outlook for stable interest rates and exchange rates," says Mr Michael Hartnett at Merrill Lunch in Tokyo.

Capital investment plans at large companies are expected to be revised upwards as productivity continues to recover. Mr Hartnett sees capital investment plans at 3 per cent, up from the 0.6 per cent reported in February.

The tankan figures could confirm the increasing unlikelihood of monetary tightening by the Bank of Japan. Fears that the central bank would allow short-term rates to rise have started to recede on the bond market, improving investor confidence.

The maturing of Y5,750bn in 10-year government bonds this month and in July have also helped sentiment on the bond market. With the stock market stalling, participants are counting on fund managers reinvesting in bonds.



A possible default of yen bonds issued by a Bulgarian bank could hit confidence of retail investors. Some Y5bn in Mineralbank bonds mature on June 14, but the likelihood that investors will be reimbursed is diminishing.

Retail investors seeking higher yields have been active buyers of low-grade yen bonds from overseas issuers. The small secondary market for samurai bonds prevents panic selling, but future fund-raising by such issuers through yen bonds might be affected.

COMMODITIES By Richard Mooney

Aluminium stoppages possible

The aluminium market has been under pressure of late. With London Metal Exchange warehouse stocks of the metal rising and economic recovery disappointingly slow, the LME price for three months delivery has struggled to stay above $1,600 a tonne.

Any investors with bullish inclinations could find encouragement this week, however, if labour contract negotiations at leading US production facilities look like resulting in stoppages.

Three-year contracts expired on Friday at a long list of companies, Alcoa and Reynolds being the most important to the market.

Flemings Global Mining Group pointed out in its Daily Metal Market Monitor last week that the expiries affected not only primary smelting capacity but also downstream processing facilities.

Flemings said it had contacted the companies in question and "understandably they were unwilling to shed any light on how the negotiations were going". It said wages and pensions were issues in the union/management talks "though we don't think that health care benefits are this time round".

"Remember," the monitor said, "that last time these contracts were negotiated, in 1993, the aluminium price averaged the year at its lowest ever level in real terms. The unions' bargaining position was not strong and rolling over and having their tummies tickled was the best they could do. This time around, the earnings outlook is much better and negotiations are likely to go down to the wire."

If strikes occur, Flemings said, the current price "will seem a bargain indeed".

● Among this week's other events is Metal Bulletin's three-day Latin America Metals conference, which began yesterday in Rio de Janeiro.

Today sees the opening, in Valletta, Malta, of a three-day grains conference co-hosted by the US Feed Grains Council and US Wheat Associates.

Speakers include Mr Tim Galvin of the US Department of Agriculture, Mr Jerry Leaper of Farmland Industries, and Mr Klaus Schumacher of Toepfer.

OTHER MARKETS Compiled by William Cochrane

HELSINKI

The Finnish equity market has had its distractions in the past year or so. Flying high between March and September 1995 as Nokia surged on bullish forecasts for the cellular telephone market, it fell sharply led by Nokia and the forestry sector in the three months to December.

The Hex index lost 32 per cent; the telecoms combine more than halved as the mobile phones bonanza threatened to stop short; and forestry companies fell by around 30 per cent as pulp prices hit a cyclical decline.

More recently, the market has seen a marginal recovery in Nokia, spiced last week by rumours that it might be a takeover target for Lucent, the US telecoms group; and a more solid climb in the forestry sector, on the view that the time to buy paper and pulp producer shares is when profits are at the bottom.

Moreover, Nokia has been replaced as the market *wunderkind* by Rasio, the food conglomerate whose Benecol margarine claims to reduce cholesterol levels in consumers. Its shares have jumped by 390 per cent since January 2.

This week, the market runs into the thick of its tertial results season, after opening with good four-monthlies from Valmet, the paper machine maker, last week.

Mr Michael Finney, at Kleinwort Benson, says the earnings pattern will be distorted this year by weakness in forestry profits and that the full year, for that reason, could see a fall in earnings of around 6 per cent for the market as a whole.

However, he says, excluding the forestry sector, Finnish companies should be flying high with a 24 per cent gain in 1996 earnings, putting the whole market on a current year prospective p/e of 9.8.

This is "the cheapest multiple in Europe", says Mr Finney; the nearest is Norway, at around 11.3, and then the multiples escalate, all the way up to France on 19.5.

MADRID

After a 38 per cent rise in 14 months, and another new peak last Tuesday, the Spanish equity market began to wobble last week. There are broad issues involved; and some are likely to be illustrated by events at this week's two big annual general meetings, of Endesa on Wednesday, and of Repsol on Friday.

The electricity utility and the oil major top the list of major state shareholdings which are due to be sold off as Spain's new centre-right government attempts to meet the criteria for European monetary union.

According to Mr Simon Jeffries at ABN Amro Hoare Govett, it is on meeting Emu criteria that the valuation of the Madrid equity market depends; but if that depended on public spending cuts alone, the ruling Popular party would have to make cuts four times as deep as the Pta250bn which have been announced.

Mr Jeffries' colleague, the European strategist Mr Chris Johns recommended an underweight position in Spanish equities last Thursday. He said the best news on interest rates had already happened, that Emu hopes were likely to prove forlorn, and that market valuations looked full to slightly stretched.

This might take some gilt off the privatisation gingerbread, especially since the new government, enthusiasm for which has extended Madrid's bull market, risks alienating a big block of institutional shareholders by replacing established company chairmen – Mr Oscar Fanjul, of Repsol, in particular – with its own nominees.

PARIS

Another busy corporate week is in store, *writes John Pitt*, with annual meetings expected from Accor and Total tomorrow, and Sanofi and Usinor on Friday.

In addition, Bouygues hosts an analysts' meeting tomorrow which will be watched closely following the group's announcement last week that it was to launch the country's third mobile telephone network.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Lucas Industries (UK)/ Varity Corp (US)	Merger	Electrical equipment	$4.9bn	LucasVarity confirmed
Deutsche Telekom (Germany)	Kazakhtelecom (Kazakhstan)	Telecoms	$550m	Debt-for-equity swap
Sandvik (Sweden)	Tampella (Finland)	Constr equip	$276m	Svedala withdraws
Great Eagle Holdings	Langham Hilton	Hotels	$153m	Ladbroke sale
Ansaldo Trasporti (Italy)	Cie des Signaux Transport (France)	Signalling	$77.4m	Merging sector operations
Daewoo (S Korea)	2 Mai (Romania)	Shipbuilding	$53m	Taking control
Royal Bank Development Capital (UK)	Superdiplo (Spain)	Retailing	$19m	Part of $120m Bimbo
Bilck (UK)	Teletechnicom (N'lands)	Distribution	$13m	Cash & paper deal
KNP BT (N'lands)	Karton Morava (Czech R)	Packaging	n/a	Reinforcing EE position

CURRENCIES

US, German and Japanese data will determine rates

Markets will this week have a rich seam of data to mine, with the release on Friday of the May payrolls report in the US and the May tankan survey in Japan.

The strength of the economy in the US and Japan will determine the outlook for interest rates in the two countries and influence the passage of the dollar.

Markets will also be keeping a keen eye on data from Germany. First-quarter GDP figures are expected to show a second consecutive quarter of negative growth, but orders data will be watched for confirmation that the economy is picking up.

Recent comments from senior Fed officials have left little doubt that the next move in US interest rates will be up. The effect that will have on the dollar is unclear; in February 1994, a rise in US interest rates was partially responsible for a collapse in the dollar.

The dollar fell quite sharply last Friday, a function of rallies in sterling and the Swiss franc, and weakness in US stock and bond prices. A key feature of this week's trading will be to establish whether this weakness was simply a correction, or something more.

Another focus will be sterling, which rallied sharply last week, notwithstanding the weaker dollar. For the first time in many months, sterling appears to have acquired a trading life of its own. The current bout of strength appears to be based on investors switching into UK assets from other high-yielders like Spain and Italy where currency and bond market rallies look to have stalled. The monthly monetary meeting in the UK is not expected to herald any shift in monetary policy.

Traders will also be keeping an eye on the Swiss franc. It is widely agreed to be overvalued, and was thought to be in a downward path, but markets were confused by comments from the chief economist of the Swiss National Bank, Mr Georg Rich, calling for a stable, independent Swiss franc.

This was taken by some as an indication that the Swiss were not looking to weaken the franc.

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, May 31, 1996. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7359.65	4750.00	3109.68	4394.08
Albania	(Lek)	155.856	99.3080	65.0082	91.8694
Algeria	(Dinar)	85.8135	55.3850	36.2586	51.2280
Andorra	(French Fr)	8.0205	5.1765	3.3889	4.7885
	(Sp Peseta)	195.758	126.825	84.4028	118.285
Angola	(Readj Kwanza)(1)	49246.1	31784.0	20807.9	29402.4
Antigua	(E Carib $)	4.1834	2.7000	1.7676	2.4977
Argentina	(Peso)	1.5473	0.9987	0.6538	0.9239
Armenia	(Dram)	628.669o	405.730	265.630	375.347
Aruba	(Florin)	2.7734	1.7900	1.1719	1.6559
Australia	(Aus $)	1.9405	1.2524	0.8199	1.1585
Austria	(Schilling)	16.6329	10.7480	7.0363	9.9425
Azerbaijan	(Manat)	6730.88o	4350.00	2847.79	4024.05
Azores	(Port Escudo)	244.248	157.640	103.201	145.828
Bahamas	(Bahama $)	1.5494	1	0.6547	0.9251
Bahrain	(Dinar)	0.5842	0.3770	0.2468	0.3488
Balearic Is	(Sp Peseta)	195.758	126.825	84.4028	119.285
Bangladesh	(Taka)	63.9128	41.2500	27.0049	38.1591
Barbados	(Barb $)	3.1165	2.0113	1.3167	1.8606
Belarus	(Rouble)	24674.2o	15925.0	10425.5	14731.7
Belgium	(Belg Fr)	48.7287	31.4500	20.5892	29.0934
Belize	(B $)	3.0988	2.0000	1.3093	1.8501
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fr. Guiana	(Local Fr)	8.0205	5.1765	3.3889	4.7886
Fr. Pacific Is	(CFP Fr)	146.270	94.4045	61.8033	87.3307
Gabon	(CFA Fr)	802.050	517.650	338.887	478.862
Gambia	(Dalasi)	15.1941	9.8000	6.4157	9.0657
Germany	(D-Mark)	2.3665	1.5275	1	1.4139
Ghana	(Cedi)	2808.28	1816.00	1057.28	1493.98
Gibraltar	(Gib £)	1	0.6454	0.4225	0.5970

		£ STG	US $	D-MARK	YEN (X 100)
Greece	(Drachma)	374.320	241.580	158.160	223.488
Greenland	(Danish Krone)	9.1455	5.9026	3.8642	5.4603
Grenada	(E Carib $)	4.1834	2.7000	1.7676	2.4977
Guadeloupe	(Local Fr)	8.0205	5.1765	3.3889	4.7886
Guam	(US $)	1.5494	1	0.6547	0.9251
Guatemala	(Quetzal)	9.3917	6.0615	3.9683	5.6073
Guinea	(Fr)	1544.75	997.000	[illegible]	[illegible]
Guinea-Bissau	(Peso)	27945.0	[illegible]	[illegible]	[illegible]
Guyana	[illegible]	215.212	[illegible]	[illegible]	[illegible]
Haiti	(Gourde)	25.0831	[illegible]	[illegible]	[illegible]
Honduras	(Lempira)	17.2913	[illegible]	[illegible]	[illegible]
Hong Kong	(HK $)	11.9865	[illegible]	[illegible]	[illegible]
Hungary	(Forint)	231.054	[illegible]	[illegible]	[illegible]
Iceland	(Icelandic Krona)	104.385	[illegible]	[illegible]	[illegible]
India	(Indian Rupee)	54.2759	[illegible]	[illegible]	[illegible]
Indonesia	(Rupiah)	3613.88	[illegible]	[illegible]	[illegible]
Iran	(Rial)	4648.20u	[illegible]	[illegible]	[illegible]
Iraq	(Iraqi Dinar)	0.4817o	[illegible]	[illegible]	[illegible]
Iraq	(Iraqi Dinar)	1549.40m	[illegible]	[illegible]	[illegible]
Irish Rep	(Punt)	0.9760	[illegible]	[illegible]	[illegible]
Israel	(Shekel)	5.1109	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
New Zealand	(NZ $)	2.2804	1.4717	0.9635	1.3614
Nicaragua	(Gold Cordoba)	12.8493	8.2931	5.4292	7.6717
Niger Rep	(CFA Fr)	802.050	517.650	338.887	478.862
Nigeria	(Naira)	34.0865o	22.0000	14.4026	20.3515
	(Naira)	130.227m	84.0500	55.0245	77.7521
Norway	(Nor. Krone)	10.1205	6.5319	4.2762	6.0425

		£ STG	US $	D-MARK	YEN (X 100)
Oman	(Rial Omani)	0.5966	0.3850	0.2520	0.3562
Pakistan	(Pak. Rupee)	53.9117	34.7950	22.7792	32.1880
Panama	(Balboa)	1.5494	1	0.6547	0.9251
Papua New Guinea	(Kina)	1.9932	1.2903	0.8447	1.1936
Paraguay	(Guarani)	3146.28	2030.00	1328.97	1877.89
Peru	(New Sol)	3.7440	2.4170	1.5823	2.2359
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Western Samoa	(Tala)	3.7967	2.4504	1.6042	2.2669
Yemen (Rep of)	(Rial)	216.916r	140.000	91.6530	129.510
Yugoslavia	(New Dinar)	7.7780	5.0200	3.2864	4.6439
Zaire Rep	(Zaire)	39974.5	25800.0	16890.3	23868.8
Zambia	(Kwacha)	1916.05	1236.00	809.165	1143.39
Zimbabwe	($)	15.2206	9.8300	6.4354	9.0934

Special Drawing Rights May 30, 1996 Utd Kingdom £0.941909 Utd States $1.44644 Germany DM2.21101 Japan Y155.432 European Currency Unit Rates May 31, 1996 Utd Kingdom £0.819818 Utd States $1.24835 Germany DM1.91535 Japan Y135.284

Abbreviations: (o) Free rate; (m) Market rate; (o) Official rate; (c) Parallel rate (t) Tourist rate (u) Currency fixed against the US Dollar (v) Floating rate (1) Angolan Readjusted Kwanza devalued on 4/3/96. (2) Two tier rate replaced by floating Venezuelan Bolivar 22/4/96. Some data derived from THE WM/REUTERS CLOSING SPOT RATES & Bank of America, Economics Department, London Trading Centre. Enquiries: 0171 634 4365. To obtain a copy of this table by Fax from the Cityline service dial 0891 437001. Calls charged at 39p/minute cheap rate, 49p/minute at all other times. Friday, May 31, 1996

INTERNATIONAL BONDS By Richard Lapper

Investors wooed by extra yield from developing nation issuers

The expected debut on the euromarkets later this month of Romania will further underline the popularity of emerging market borrowers among international investors.

Interest rates may have risen recently in the core European, US and Japanese markets, but investors appear anxious to pick up the extra yield available on paper from developing nation issuers.

This is shown by the growing volume of issuance in the international bond markets by borrowers from Latin America, the Far East and eastern Europe so far this year. Figures from Euromoney Bondware show that more than $30bn has been raised in 1996 from 174 separate issues of eurobonds, samurais and yankees. That is already two-thirds of the $45.7bn raised during all of 1995.

Yields on emerging market issues traded in the secondary market have fallen by an average of one percentage point over the last 12 months, with Latin American corporate securities performing particularly strongly. Spreads on a dollar bond issue by Cemex, the Mexican cement company, have tightened by 140 basis points over the last three months, for example.

Maturities of emerging market issues have lengthened, as investor perceptions of credit risks have improved. Argentina recently issued 15-year bonds, for example, while Mexico swapped some $1.75bn of Brady paper for 30-year dollar-denominated bonds. Brazil said last month that it is contemplating a similar programme.

Against this background, bankers accompanying Romanian officials on a roadshow in Europe and the US expect to secure attractive terms on the country's first ever eurobond issue. Maturity and size are still to be decided.

Led by Merrill Lynch, the bond will be listed in Luxembourg and will include a tranche aimed at qualified institutional buyers in the US under Rule 144a. Romania's recent record in international markets as well as the performance of similar if not exactly comparable credits gives some clue to likely pricing.

The National Bank of Romania (NBR), the country's central bank, has still to decide the timing of the issue but is expected to be looking to raise about $150m over three years in its sixth capital raising exercise since it re-entered the capitals market in 1995 after an absence of more than a decade.

NBR raised $150m in a one-year syndicated loan arranged by Citibank last March and a further $110m in an 18-month deal on the syndicated market in October last year, also led by Citibank. It followed those deals with a 15-month $90m syndicated loan, led by Sanwa in April this year.

In between, in February 1996, NBR raised some $50m through a five-year privately placed bond issue in the US, led by Merrill Lynch. And last month the bank raised Y52bn with a three-year samurai bond led by Nomura.

Rates on these borrowings have steadily fallen. The bank paid 2.75 per cent over Libor on the first loan. That rate fell to 2.25 per cent on the October loan and the February private placement, and 1.75 per cent on the April loan.

The bank paid yen Libor plus 2.80 per cent (roughly equivalent to dollar Libor plus 3.10 per cent) on the samurai loan, swapping the proceeds into dollars to achieve a funding rate equivalent to 3.36 per cent over the interpolated Treasury bond yield.

Turkey, which has a slightly lower credit rating from Standard & Poor's (B+ as opposed to BB– for Romania) and the same from Moody's at Ba3, issued a five-year bond in May, which is now trading at 230 basis points over Treasuries.

Bonds issued by three Latin American sovereign borrowers – Mexico (rated Ba2 by Moody's and BB by S&P), Argentina (B1 and BB–) and Brazil (B1 and B+) – are trading in a range of 350 to 450 basis points over Treasuries.

Romania might expect to achieve funding rates midway between these levels but will clearly hope its improving economic fundamentals will bring down these costs on future issues.

It is understood the bank intends to raise another $300m this year, probably through a second samurai and another syndicated loan.

During the country's roadshow last week, bankers were told that growth, inflation, the budget deficit and indebtedness are all comparable with some of eastern Europe's best performing economies, which have benefited from rapidly improving perceptions of their creditworthiness in the last few months.

For example, in 1995 Romanian growth of 6.9 per cent was ahead of Poland (6.5 per cent), the Czech Republic (4.8 per cent) and Hungary (2 per cent), and only marginally behind Slovakia (7.4 per cent).

The country's budget deficit, equal to 3.6 per cent of GDP in 1995, was lower than either Polish or Hungarian levels (4 per cent and 6.5 per cent respectively).

Romanian indebtedness remains extremely low by central European standards, amounting to 74 per cent of exports, compared with 43 per cent for Slovakia, 76 per cent for the Czech Republic, 145 per cent for Poland and 190 per cent for Hungary.

As a percentage of GDP, debt is 19.4 per cent, against 34.8 per cent in the Czech Republic, 40.2 per cent in Poland, 55.6 per cent in Slovakia and 76.7 per cent in Hungary.

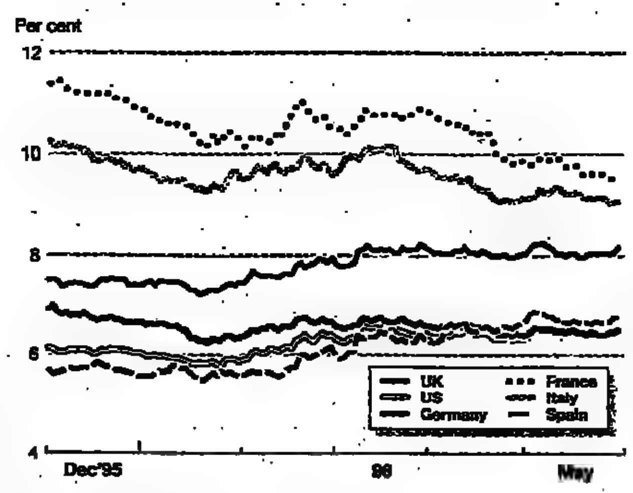
The Romanian authorities are also likely to stress the differences between their economy and that of their southern neighbour, Bulgaria, following news last week of a likely default by Mineralbank on a Y5bn bond issue privately placed with Japanese investors seven years ago.

The Bulgarian authorities said on Friday that they will not cover payments due next month on the issue. The price of Bulgarian Brady bonds, the most widely traded class of Bulgarian dollar-denominated debt, had fallen on Thursday on rumours of a possible Mineralbank default.

However, the Brady bonds were unaffected by Friday's news and traded marginally higher towards the close in New York.

Analysts said Bulgaria's foreign exchange difficulties, highlighted by the government's refusal to cover Mineralbank's debts, had been discounted in the market.

10-year benchmark bond yields



Source: FT Extel

INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	5.00	0.50	2.50	4.95[1]	[illegible]	6.00[2]
Overnight	5.38	0.47	3.25	3.78	9.78	5.94
Three month	5.18	0.48	3.25	3.83	8.87	6.06
One year	5.78	0.84	3.37	4.03	8.43	6.37
Five year	6.65	2.25	5.21	5.56	8.97	7.65
Ten year	6.86	3.16	6.52	6.61	9.59	8.14

(1) France-Repo rate. (2) UK-Base rate. Source: Reuters.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
Central Hispano Eurocapital(a)	450	undated	(a1)	100.00	-	-	Merrill Lynch Intl
Toyota Motor Finance(Neths)	350	Jan 1999	6.25	99.77R	6.337	+50(5¾%-99)	Nomura International
Japan Highway	300	Jan 2006	7.00	99.62R	7.054	+30(6¾%-06)	IBJ International
Swedish Export Credit(b)‡	200	Jan 1999	(b1)	99.96	-	-	Yamaichi Intl(Europe)
Banque Nationale de Paris	175	Jan 2006	7.50	99.896R	7.515	+75(6¾%-06)	Lehman/Salomon Bros
ING Bank	150	Jan 2006	7.25	99.207R	7.365	+60(6¾%-06)	PaineWebber Intl(UK)
Ford Motor Credit Co	750	Jan 2001	6.875	99.431R	7.014	+46(WI 5yr)	Merrill Lynch Intl
Council of Europe	500	Jan 2001	6.75	99.85R	6.786	+16(WI 5yr)	Merrill/SBC Warburg
C'wealth Bank of Australia(j)	400	Jul 2006	7.125	99.563R	7.185	+38(6⅞%-06)	Morgan Stanley Intl
Beta Finance Corp(j)	200	Jan 1999	6.375	99.85R	6.43	+12(6¾%-99)	SBC Warburg
PNOC Energy Dev'ment Corp	150	Dec 2001	8.125§	99.49R	8.242	+170(WI 5yr)	Morgan Stanley Intl
Hewlett Packard Finance Co(e)	150	Dec 1999	6.25	100.00R	6.27	+11½(WI 5yr)	Citibank International
KfW International Finance	200	Jan 2000	6.50	99.80R	6.558	+36	Paribas Capital Markets
Petroquimica Unido(h)	80	Jan 2004	(h1)§	99.17R	12.34	+595(6⅛%-98)	Indosuez Capital
Midland Bank(i)	25	Jan 1997	16.00	100.00	-	-	HSBC Markets
ANZ Banking Group(a)	200	Dec 1998	6.50	99.9625R	6.53	+25(6%-98)	HSBC Markets
Cofinoga(l)‡	100	Jul 2006	(l1,s)	99.78R	-	-	Goldman Sachs Intl
Bridas Corp	100	Dec 1998	10.25#	99.705R	10.39	+412½(l)	Chase Inv'ment Bank
Banco Sudameris Brasil	70	Jan 1998	9.75#	99.70R	9.870	+360(6⅞%-98)	Paribas Capital Markets
D-MARKS							
DSL Finance	500	Jan 2001	5.375	99.73R	5.438	+30(5¼%-01)	Goldman Sachs
Bacob Overseas‡	200	Jan 2000	(f)	99.933R	-	-	Bqe Paribas(Deutsch)
Republic of Argentina(d)	500	May 2011	11.75	99.65R	11.80	+511(6¼%-06)	CSFB-Effectenbank
YEN							
Republic of Finland(g)★	12bn	Jun 1998	6.60	99.99	-	-	Daiwa Europe
SWISS FRANCS							
Crédit Local de France(s)	100	Dec 2001	4.25	103.25	-	-	DKB/Merrill Lynch
Merrill Lynch & Co(s)	100	Dec 2000	4.00	101.50	-	-	Merrill Lynch Cap Mkts
STERLING							
Bayerische Hypo(s)	150	Dec 2000	7.625	99.638R	7.742	+20(8%-00)	BZW
Federative Republic of Brazil	100	Jun 1999	9.75	99.719R	9.863	+250(6%-99)	HSBC Markets
Commercial Union(k)	200	Jan 2016	9.50	99.447R	9.563	+95(8¾%-17)	BZW/NatWest Cap Mkts
Bradford & Bingley B/S(a)	150	Dec 1999	7.625	99.83R	7.765	+35(6%-99)	UBS
Beneficial Bank‡	150	Jun 1998	(m)	99.93R	-	-	JP Morgan Securities
GUILDERS							
Dresdner Finance	300	Jan 2002	5.50	99.13R	5.677	+10.1(6¼-02)	ING Barings
FRENCH FRANCS							
Cades(c)	14bn	Apr 2002	5.50	98.523R	5.801	+7(l)	CDC/SocGen
Cades(d)	11bn	Oct 2007	6.25	97.451R	6.580	+7(l)	CDC/SocGen
Atlas Capital‡	3.8bn	Dec 1998	(n)	100.00R	-	-	Bankers Trust(Fr)/BTI
LUXEMBOURG FRANCS							
Nordic Investment Bank(e)	2bn	Dec 2001	5.625	102.375	5.12	-	BIL/Kredietbank Lux
ITALIAN LIRE							
World Bank(a)	300bn	Jun 1999	8.50	101.12	-	-	BNL/Cariplo/San Paolo
Cariplo, London Branch(p)	500bn	Jul 2006	zero	40.56	-	-	Cariplo
AUSTRALIAN DOLLARS							
International Finance Corp★	200	Jun 1999	7.75	100.00	7.750	-	DKB/Kankaku(Europe)
National Australia Bank	100	Jan 2000	8.75	107.428	6.313	-	ABN Amro Hoare Govt
World Bank	100	Jul 1999	8.25	101.12	7.817	-	Toronto Dominion Bank
ECU							
Kredietbank Intl Finance(r)	45	Jan 2002	(r1)	101.50	5.194	-	Kredietbank Intl Group
PESETAS							
L-Bank(t)	10bn	Jun 1999	7.85	100.849	7.473	-	Argentaria/Deutsche
CANADIAN DOLLARS							
LB Schleswig-Holstein(t)	100	Dec 1999	6.375	99.324R	6.62	-6(7¼%-99)	Hambros Bank
ESCUDOS							
European Investment Bank	10bn	Jun 2005	8.50	100.726	8.388	-	Banco Finantia/UBS
Argentaria Global Finance‡	10bn	Jun 2001	(u)	100.00	-	-	Banco Espirito Santo

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ◊With equity warrants. ★Unlisted. #Semi-annual coupon and yield. R: fixed re-offer price. a) Preference shares with $25 par value. Callable on coupon dates from June 2001 at par. a1) 3-mth Libor +230bp. b) Puttable on coupon dates at par. b1) 5.10% in 1st yr and 3-mth Libor -60bp thereafter. c) Plus 50 days accrued. d) Plus 233 days accrued. e) Callable on 28/6/97 and 98 at par. f) 3-mth Libor +⅛%. g) Redemption in AusS. h) Callable on 14/6/99 at 101.02% and 2001 at 102.03%. Puttable on 14/6/99 at 100.01% and 2001 at par. h1) 12% to 14/6/98, then 13½% to 14/6/00 and 15¼% thereafter. i) Over interpolated yield. j) Redemption linked to Lebanese pound. k) Spens call provision. l) Long 1st coupon. m) 3-mth Libor +⅛%. n) 3-mth Pibor +10bp. o) Callable on 3/7/01 at 62.02%. p) Osterreichische Postsparkasse. r) 6-mth Libor -8bp. r) Ecu55m launched 23/5/96 was increased to Ecu100m. r1) 5¼% to 28/6/99, then 6%. s) Short 1st coupon. t) Callable from July 2001 at par. t1) 3-mth Libor +55bp to July 2001 and +130bp thereafter. u) Fungible with DM500m. Plus 23 days accrued. Note: Yields are calculated on ISMA basis.

EMERGING MARKETS By Ray Colitt

Caracas SE takes a breather

Although the nine-day rally on the Caracas stock market came to a halt in the middle of last week on profit-taking, equity analysts see a continued bullish trend in the short to medium-term.

Amid forecasts of a prolonged economic recession and results of a recent business survey indicating industrial output in the first quarter is down significantly, the equity market's strong showing is somewhat of an anomaly.

The Merinvest composite index surged from 198 on May 15 to a record 223.15 on May 28, before dipping to 219.28 at the close on Friday May 31.

The driving force behind the surge, say analysts, was a continuous drop in yields on fixed-income securities. The interest rate on 89-day stabilisation bonds (TEMs), offered weekly by the central bank, dropped 11 points to 31 per cent. The annualised inflation rate currently exceeds 90 per cent.

The buying spree was directed principally at export companies with foreign currency earnings, which according to some analysts still have a stronger financial position than companies that generate bolivars and are suffering from the 40 per cent depreciation in April. Among these companies were Terminales Maracaibo, a maritime service company, steel producer Sivensa, and the cement company Vencemos.

Foreign investors have also entered the market, seeing shares of companies such as Corporación Venezolana de Cementos (Vencemos) as still undervalued in dollar terms.

Those foreign investors that jumped on the band wagon before it started speeding off have seen year-to-date returns in dollar terms of 77 per cent. They entered the market at the parallel currency exchange rate, pre-empting April's draconian depreciation.

Two international funds that entered on time were Hong Kong-based fund manager Templeton and Quantam Brothers, which acquired a 4.5 per cent stake in benchmark Electricidad de Caracas (Elecar) and a 9.8 per cent stake in Banco Provincial, respectively.

The market has also been fuelled by strong first-quarter performances and announcements of dividends by a handful of select companies.

A number of banks performed well under close scrutiny of their financial positions amid fears that the authorities could raise interest rates in line with recent IMF-inspired measures. Banco Mercantil, for example, sky-rocketed in less than two weeks from 815 to 1,370 bolivars on May 30. "The financial sector companies generally performed well," said Mr Ruben Dinamarca, an analyst at brokerage Merinvest.

It was the second important run on the market this year and, though erratic, has sparked interest in Venezuela after a two-year slump which saw daily volume plummet to no more than a trickle. Volume has since recuperated to daily averages of $7m to $9m, compared with less than $1m during the same period last year.

The broader picture is that Venezuela's economic stabilisation plan has, at least initially, been more successful than expected. Following the liberalisation of foreign exchange controls and the flotation of the currency in mid-April, the bolivar has remained stable and international monetary reserves have even increased slightly. Also, Venezuela's agreement in principle with the International Monetary Fund has reassured investors.

On Friday, the market softened further on news that electricity rate increases were less than expected. Shares of the utility Electricidad de Caracas, which says its costs have risen by 46.84 per cent, compared with a 25 to 37 per cent rise in electricity rates, dipped by 8 bolivars on Friday.

In the medium term, most market watchers see the upward trend in share prices continuing, though not as strongly as they have recently. With real interest rates still negative, the financial market's excess liquidity will still flow to the equity market.

As the authorities are reluctant to raise interest rates dramatically, fearing a negative impact on a banking sector still recovering from its virtual collapse in 1994, the only way to reach real positive interest rates is to bring down inflation, which is forecast to top 100 per cent by the year-end.

Mr Luis Matos Azocar, Venezuela's finance minister, says interest rates could turn positive in mid-July as monthly inflation begins falling to end the year at around 2 per cent. But independent economic analysts have their doubts.

Mr Fernando Pablo, equity analyst with Santander Investment in Caracas, foresees foreign investors remaining in the market, despite an improvement in yields on US Treasuries.

Although "local investors will drive the market in the coming week", says Mr Pablo, "we have yet to see institutional investment funds move into the market". Except for selective purchases by a couple of funds, traders dominate the foreign investor scene, he adds.

"The market has taken a break but still has some steam left," says Mr Daniel Lahoud, chief analyst with the consultancy InvestAnalysis. He says the market has another 30 to 40 per cent growth potential over the next couple of weeks.

Yet there are those who are not happy with the market. Macroeconomic stability will depend on painful structural adjustment in the public sector, they say.

"The government has taken first steps towards stabilising the economy, yet they need to cut spending or else they will have to devalue again," says Mr Simon Brad, a trader with brokerage Banesca.

Venezuela

Source: FT Extel

ING BARING SECURITIES EMERGING MARKETS INDICES

Index	31/5/96	Week on week movement Actual	Percent	Month on month movement Actual	Percent	Year to date movement Actual	Percent
World (395)	162.22	+0.38	+0.23	-0.72	-0.44	+14.66	+9.93
Latin America							
Argentina (22)	103.22	-0.45	-0.43	+3.79	+3.81	+10.44	+11.25
Brazil (23)	225.47	+3.16	+1.42	+14.29	+6.76	+39.38	+21.16
Chile (16)	180.34	-4.65	-2.51	-5.62	-3.02	-15.32	-7.83
Colombia (14)	170.01	-1.69	-0.98	-7.71	-4.34	+5.76	+3.51
Mexico (23)	86.80	-1.29	-1.46	+1.51	+1.77	+13.20	+17.94
Peru(14)	1,041.21	-4.12	-0.39	-75.56	-6.77	-27.75	-2.60
Latin America (112)	138.51	-0.40	-0.29	+3.36	+2.50	+15.37	+12.48
Europe							
Greece (18)	108.68	+2.69	+2.73	+3.72	+3.54	+10.71	+10.93
Portugal (20)	130.11	+2.40	+1.88	+6.64	+5.38	+13.65	+11.72
Turkey (26)	108.12	+3.82	+3.78	-6.72	-5.85	+25.32	+30.58
South Africa (32)	147.87	+4.18	+2.90	-3.06	-2.02	-5.50	-3.59
Europe (96)	123.38	+3.26	+2.72	-1.38	-1.11	+1.88	+1.53
Asia							
China (24)	44.71	+0.97	+2.22	+1.25	+2.88	+4.38	+10.87
Indonesia (32)	152.52	+0.55	+0.36	-2.60	-1.68	+13.87	+10.01
Korea (23)	126.88	-3.10	-2.39	-21.37	-14.44	-10.23	-7.47
Malaysia (24)	258.29	-4.32	-1.65	-7.73	-2.91	+30.93	+13.80
Pakistan (14)	93.92	+3.62	+4.01	+11.08	+13.38	+20.32	+27.62
Philippines (14)	336.76	+5.92	+1.79	+34.84	+11.54	+77.59	+29.94
Thailand (25)	255.48	+3.04	+1.20	+1.40	+0.55	+3.58	+1.42
Taiwan (31)	160.88	-0.56	-0.34	-7.15	-4.25	+30.05	+22.98
Asia (187)	227.09	-0.80	-0.35	-6.07	-2.60	+24.04	+11.84

All indices in $ terms, January 7th 1992=100. Source: ING Baring Securities.

WORLD STOCK MARKETS

EUROPE

AUSTRIA (May 31 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (May 31 / Frs.)

[illegible]

CZECH REP (May 31 / Korons)

[illegible]

DENMARK (May 31 / Kr)

[illegible]

FINLAND (May 31 / Mks)

[illegible]

FRANCE (May 31 / Frs.)

[illegible]

GERMANY (May 31 / Dm.)

[illegible]

GREECE (May 31 / Drachma)

[illegible]

ITALY (May 31 / Lira)

[illegible]

NETHERLANDS (May 31 / Frs.)

[illegible]

NORWAY (May 31 / Kroner)

[illegible]

POLAND (May 31 / Zloty)

[illegible]

PORTUGAL (May 31 / Escudo)

[illegible]

SPAIN (May 31 / Pts.)

[illegible]

SWEDEN (May 31 / Kronor)

[illegible]

SWITZERLAND (May 31 / Frs.)

[illegible]

TURKEY (May 31 / Tk Lira)

[illegible]

PACIFIC

JAPAN (May 31 / Yen)

[illegible]

AUSTRALIA (May 31 / Aus$)

[illegible]

HONG KONG (May 31 / H.K.$)

[illegible]

INDONESIA (May 31 / Rupiah)

[illegible]

MALAYSIA (May 30 / MYR)

[illegible]

NEW ZEALAND (May 31 / NZ $)

[illegible]

SINGAPORE (May 30 / S$)

[illegible]

SOUTH KOREA (May 31 / Won)

[illegible]

TAIWAN (May 31 / TW $)

[illegible]

THAILAND (May 30 / Baht)

[illegible]

NORTH AMERICA

CANADA

TORONTO (May 31 / Can $) 4 pm close

[illegible]

MONTREAL (May 31 / Can $) 4 pm close

[illegible]

AFRICA

SOUTH AFRICA (May 31 / Rand)

[illegible]

INDICES

	May 31	May 30	May 29	1996 High		1996 Low	
Argentina							
General(29/12/77)	18214.80	18386.43	18348.75	19881.05	20/5	[illegible]	19/3
Australia							
All Ordinaries(1/1/80)	2268.1	2253.3	2264.2	[illegible]	29/4	2137.40	11/3
All Mining(1/1/80)	1085.6	1073.2	1076.3	1118.40	6/5	1004.70	16/1
Austria							
Credit Aktien(30/12/84)	394.99	392.28	392.74	394.99	31/5	362.78	2/1
Traded Index(2/1/91)	1135.85	1129.96	1130.37	1142.51	29/5	975.27	2/1
Belgium							
BEL20(1/1/91)	1783.40	1741.02	1780.02	1773.26	28/5	1624.90	2/1
Brazil							
Bovespa(29/12/83)	57280.0	56976.0	56257.0	57168.00	28/5	42301.00	2/1
Canada							
Metals Minls◆(1975)	5434.94	5412.14	5381.75	5624.80	8/5	4667.47	18/1
Composite◆(1975)	5248.40	5225.30†	5209.78	5239.50	22/5	4738.70	15/1
Portfolio§§(4/1/83)	2580.17	2562.32	2551.40	2605.55	27/5	2327.39	12/1
Chile							
IGPA Gen♥(31/12/80)	5417.07	5386.94	5385.40	[illegible]	8/1	[illegible]	8/4
Denmark							
CopenhagenSE(3/1/83)	402.88	403.43	403.71	407.07	28/5	365.40	2/1
Finland							
HEX General(28/12/90)	2070.42	2024.24	2014.84	2070.42	31/5	1661.67	19/1
France							
SBF 250(31/12/90)	1445.67	1444.35	1440.92	1468.83	29/5	1280.19	2/1
CAC 40(31/12/87)	2110.08	2108.44	2117.10	2146.79	30/4	[illegible]	11/1
Germany							
FAZ Aktien(31/12/58)	895.59	891.72	891.55	904.93	23/5	[illegible]	2/1
Commerzbank(1/12/53)	2574.1	2562.9	2568.2	2601.90	23/4	2370.20	2/1
DAX‡(30/12/87)	2542.80	2527.31	2551.45	2570.78	21/5	[illegible]	2/1
Greece							
Athens SE(31/12/80)	924.39	916.73	915.85	1017.98	4/3	901.03	29/4
Hong Kong							
Hang Seng(31/7/64)	11264.73	11157.07	11300.55	11594.99	16/2	10204.87	2/1
India							
BSE Sens.(1979)	3724.97	3700.62	3740.45	3869.87	24/4	[illegible]	25/1
Indonesia							
Jakarta Comp.(10/8/82)	617.46	617.24	622.48	639.31	24/4	512.46	2/1
Ireland							
ISEQ Overall(4/1/88)	2532.36	2516.41	2533.91	2547.29	21/5	2234.61	2/1
Italy							
Banca Comm Ital(1972)	668.56	668.14	668.81	674.10	20/5	572.21	23/3
MIB General(2/1/96)	1133.0	1134.0	1135.0	1142.00	20/5	[illegible]	27/3
Japan							
Nikkei 225(16/5/49)	21955.19	21886.35	22021.50	[illegible]	24/4	19734.70	13/3
Nikkei 300(1/10/82)	310.84	309.20	310.40	[illegible]	25/4	284.48	11/3

	May 31	May 30	May 29	1996 High		1996 Low	
Japan							
Topix(4/1/68)	1660.57	1673.41	1680.65	[illegible]	28/4	[illegible]	13/3
2nd Section(4/1/68)	2228.42	2218.00	2211.37	2243.26	2/5	[illegible]	14/3
Malaysia							
KLSE Comp.(4/4/86)	(c)	1141.97	1137.86	[illegible]	29/4	[illegible]	2/1
Mexico							
IPC(Nov 1978)	(c)	3260.60	3273.46	[illegible]	22/5	2276.38	6/3
Netherland							
CBS TRtnGen(End 83)	647.2	641.8	644.3	647.20	31/5	[illegible]	2/1
CBS All Shr(End 83)	393.9	390.8	392.2	393.90	31/5	336.70	2/1
New Zealand							
Cap. 40(1/7/86)	2045.81	2046.01	2042.09	[illegible]	4/1	[illegible]	28/5
Norway							
Oslo SE(Ind)(2/1/83)	1438.82	1432.12	1436.57	1444.72	29/4	[illegible]	20/1
Philippines							
Manila Comp(2/1/85)	[illegible]	[illegible]	[illegible]	[illegible]	30/5	[illegible]	2/1
Portugal							
BVL 30(4/1/93)	[illegible]	[illegible]	[illegible]	[illegible]	30/5	[illegible]	2/1
Singapore							
SES All-S'pore(2/4/75)	(c)	590.97	590.71	609.37	9/2	[illegible]	2/1
South Africa							
JSE Gold(28/9/78)	2013.1♥	2033.9	2030.4	[illegible]	29/5	[illegible]	2/1
JSE Ind.(28/9/78)	7985.9♥	7864.0	7865.7	8008.39	25/1	7723.20	29/5
South Korea							
KoreaCompEx**(4/1/80)	903.04	888.58	894.29	[illegible]	7/5	[illegible]	13/3
Spain							
Madrid SE(30/12/85)	390.72	391.71	394.14	[illegible]	28/5	323.76	11/1
Sweden							
AffarsvardsGen(1/2/37)	1970.2	1957.6	[illegible]	[illegible]	20/5	[illegible]	22/1
Switzerland							
Swiss Bk Ind(31/12/58)	1724.74	1717.81	1725.80	1770.64	29/4	[illegible]	17/1
SBC General(1/4/87)	1217.94	1211.97	1219.01	[illegible]	29/4	1114.47	26/1
Taiwan							
Weighted Pr.**(30/6/66)	5896.82	5882.92	5878.43	[illegible]	29/4	[illegible]	8/2
Thailand							
Bangkok SET(30/4/75)	(c)	1311.91	1302.20	[illegible]	9/2	[illegible]	13/3
Turkey							
Istanbul Cmp.(Jan 1986)	61159.4	61941.8	60414.8	[illegible]	8/4	[illegible]	2/1
WORLD							
MS Capital Intl(1/1/70)	777.0*	778.2	772.6	780.30	23/5	725.80	15/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	1687.86	1679.37	1682.00	1690.17	28/5	[illegible]	11/1
Euro Top-100(26/6/90)	1443.14	1437.39	1445.60	1458.28	28/4	1333.01	11/1
HSBC JC Dgn(31/12/88)	(u)	378.07	378.27	383.18	16/4	344.19	2/1
ING Barings Emerg(7/1/92)	162.22	161.54	[illegible]	164.14	14/5	147.36	2/1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
CAC-40 (200 x index)							
May	2114.0	2117.1	+8.1	2124.0	2110.0	15,878	9,171
Jun	2093.5	2088.0	+1.5	2102.0	2087.0	18,700	51,324
DAX							
Jun	2549.0	2540.5	−13.5	2561.0	2523.5	13,247	161,439
Sep	2568.0	2559.0	−12.5	2569.5	2545.0	281	7,917
OMX							
May	1545.00	1550.00	+12.00	1558.00	1545.00	2,907	18,472
Jun	1554.00	1557.75	+13.75	1557.75	1554.00	15	1,155
SOFFEX							
Jun	3516.2	3536.0	+30.0	3543.0	3516.2	4,970	28,456
Jul	3528.5	3538.5	+17.5	3529.3	3528.5	55	2,719

** Sat May 25: Taiwan Weighted Price 5909.41; Korea Comp Ex 911.79. Base values of all indices are 100 except Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL 30, SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 20 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ◆ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: May 31 - 2523.81 -11.97.

US INDICES

Dow Jones	May 31	May 30	May 29	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	41.22
				(22/5)	(10/1)	(22/5/96)	[illegible]
Home Bonds	[illegible]	[illegible]	101.94	[illegible]	101.19	109.77	54.99
				(14/2)	[illegible]	(18/10/93)	[illegible]
Transport	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	72.32
				(22/5)	(10/1)	(22/5/96)	[illegible]
Utilities	[illegible]	211.85	211.39	[illegible]	[illegible]	[illegible]	10.50
				(13/2)	(7/5)	[illegible]	[illegible]

DJ Ind. Day's high [illegible] (5724.41) Low [illegible] (5625.07) (Theoretical)
Day's high 5696.21 (5715.[illegible]) Low [illegible] (5644.[illegible]) (Actual)

Standard and Poors	May 31	May 30	May 29	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.40
				(24/5)	(10/1)	(24/5/96)	[illegible]
Industrials‡	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.62
				(24/5)	(10/1)	(24/5/96)	(21/6/32)
Financial	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NYSE Comp.	[illegible]	[illegible]	[illegible]	[illegible]	321.41	[illegible]	4.46
				(24/5)	(10/1)	(24/5/96)	[illegible]
Amex Mkt Val	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	29.31
				(22/5)	(10/1)	(22/5/96)	[illegible]
NASDAQ Comp	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	54.87
				(28/5)	(15/1)	(23/5/96)	(31/10/72)

RATIOS

	May 24	May 17	May 10	Year ago
Dow Jones Ind. Div. Yield	2.15	2.17	2.20	2.53
	May 29	May 22	May 15	Year ago
S & P Ind. Div. yield	1.86	1.83	1.88	2.21
S & P Ind. P/E ratio	22.30	22.71	21.98	18.77

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Micron	6,823,400	32¼	−⅜
PepsiCo	3,675,800	33¾	−⅜
Checkpoint	3,579,500	[illegible]	[illegible]
WalMart	3,367,200	25⅝	+⅛
CocaCola	3,263,400	46	−⅜
LSI Logic	3,220,100	31⅞	+⅜
Motorola	3,045,300	65¾	+1⅞
Bay Network	3,019,800	29	—
AT&T	2,653,300	62⅝	−⅛
Tel Brasil	2,271,200	84⅝	+½

TRADING ACTIVITY

Volume (million)

	May 31	May 30	May 29
New York SE	350.842	384.153	347.784
Amex	25.532	22.226	22.582
NASDAQ	[illegible]	[illegible]	[illegible]
NYSE			
Issues Traded	3,142	3,160	3,158
Rises	1,071	1,305	834
Falls	1,234	978	1,522
Unchanged	837	825	802
New Highs	48	60	35
New Lows	26	25	26

	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
S&P 500							
Jun	673.40	675.20	−8.10	675.20	668.50	84,079	189,797
Sep	676.50	680.80	−5.80	680.80	672.15	4,933	25,905
Nikkei 225							
Jun	21910.0	22010.0	+120.0	22020.0	21910.0	18,718	282,837
Sep	22000.0	22050.0	+140.0	22160.0	21990.0	12,280	75,598

Open interest figures for previous day.

† Correction. * Calculated at 15.00 GMT. ⊕ Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ◆ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

TOKYO - MOST ACTIVE STOCKS: Friday, May 31, 1996

	Stocks Traded	Closing Prices	Change on day
Kanematsu Corp	9.5m	700	−40
Bk Tk-M'bishi	8.7m	2560	−20
Kobe Steel	8.2m	298	+3
Kawasaki Hvy Ind	8.1m	585	+11
Daiichi Kgy B	7.8m	1950	+20
Mitsubishi Ryn	7.5m	478	+11
Sato Kogyo	5.7m	728	+40
Nippon Stl Corp	5.6m	367	+2
Hitachi	5.3m	1000	+11
Hitachi Zosen	4.0m	589	+5

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are based on data from Jan 1 1996. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

May 31		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	16.6529	+0.1068	452 - 606	16.6703	16.5327	16.6218	2.3	16.5488	2.6	-	-	104.8
Belgium	(BFr)	48.7287	+0.3773	851 - 722	48.7722	48.3230	48.6237	2.6	48.4137	2.6	47.3937	2.7	106.3
Denmark	(DKr)	9.1455	+0.0822	414 - 496	9.1496	9.0844	9.1301	2.0	9.0973	2.1	8.954	2.1	107.2
Finland	(FM)	7.3132	+0.0537	074 - 189	7.3189	7.2530	7.3068	0.7	7.3007	0.7	-	-	82.8
France	(FFr)	8.0205	+0.0586	168 - 241	8.0241	7.9547	8.0054	2.1	7.9785	2.1	7.8456	2.2	108.0
Germany	(DM)	2.3868	+0.0151	656 - 676	2.3698	2.3517	2.3617	2.5	2.3512	2.6	2.3009	2.8	108.1
Greece	(Dr)	374.320	+2.072	068 - 571	375.591	369.857	-	-	-	-	-	-	67.4
Ireland	(I£)	0.9760	+0.0018	753 - 767	0.9773	0.9736	0.9752	1.0	0.9739	0.9	0.9671	0.9	99.4
Italy	(L)	2398.39	+20.53	708 - 971	2399.71	2374.50	2406.64	-4.1	2421.74	-3.9	2474.44	-3.2	76.4
Luxembourg	(LFr)	48.7287	+0.3773	851 - 722	48.7722	48.3230	48.6237	2.6	48.4137	2.6	47.4937	2.5	106.3
Netherlands	(Fl)	2.6522	+0.0204	510 - 533	2.6538	2.6301	2.6459	2.9	2.6332	2.9	2.574	2.9	108.7
Norway	(NKr)	10.1205	+0.0611	140 - 269	10.1705	10.0370	10.1115	1.1	10.0924	1.1	9.9987	1.2	98.6
Portugal	(Es)	244.248	+1.858	107 - 388	244.432	242.362	244.873	[illegible]	245.578	-2.2	-	-	94.8
Spain	(Pta)	199.756	+1.57	666 - 847	199.847	198.107	200.066	-1.9	200.561	-1.6	202.216	-1.2	80.3
Sweden	(SKr)	10.4272	+0.0299	169 - 374	10.4374	10.3634	10.4284	-0.1	10.43	-0.1	10.4323	0.0	89.3
Switzerland	(SFr)	1.9402	+0.0069	393 - 411	1.9414	1.9321	[illegible]	3.8	1.9212	3.9	1.8635	4.0	111.2
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	88.3
Ecu	-	1.2553	+0.0098	546 - 559	1.2559	1.2462	1.254	1.2	1.251	1.4	1.2377	1.4	-
SDR†	-	1.081600	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5473	+0.0147	467 - 478	1.5498	1.5318	-	-	-	-	-	-	-
Brazil	(R$)	1.5467	+0.0175	459 - 475	1.5475	1.5276	-	-	-	-	-	-	-
Canada	(C$)	2.1243	+0.0241	234 - 252	2.1252	2.1004	2.1236	0.4	2.1199	0.8	2.1119	0.6	84.0
Mexico	(New Peso)	11.4943	+0.0776	874 - 011	11.5011	11.3598	-	-	-	-	-	-	-
USA	($)	1.5494	+0.0148	490 - 498	1.5500	1.5320	1.5486	0.6	1.5473	0.6	1.5438	0.4	87.0
Pacific/Middle East/Africa													
Australia	(A$)	1.9405	+0.0115	394 - 416	1.9416	1.9178	1.943	-1.6	1.9481	-1.6	1.9733	-1.7	94.2
Hong Kong	(HK$)	11.9885	+0.1163	846 - 924	11.9924	11.8545	11.9804	0.8	11.9688	0.7	11.949	0.3	-
India	(Rs)	54.2756	+0.5031	517 - 995	53.9870	53.7100	-	-	-	-	-	-	-
Israel	(Shk)	5.1108	+0.035	069 - 146	5.1154	5.0611	-	-	-	-	-	-	-
Japan	(Y)	167.490	+2.367	370 - 611	167.670	165.200	166.765	5.2	165.275	5.3	158.86	5.2	135.5
Malaysia	(M$)	3.8712	+0.0354	694 - 730	3.8730	3.8300	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2804	+0.0344	789 - 818	2.2818	2.2488	2.2854	-2.6	2.2949	-2.5	2.3287	-2.1	108.5
Philippines	(Peso)	40.5789	+0.403	909 - 668	40.6668	40.4909	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.8108	+0.0554	091 - 124	5.8128	5.7458	-	-	-	-	-	-	-
Singapore	(S$)	2.1842	+0.0199	[illegible]	2.1855	2.1601	-	-	-	-	-	-	-
South Africa	(R)	6.7554	+0.0415	459 - 649	6.7648	6.7025	-	-	-	-	-	-	-
South Korea	(Won)	1220.85	+11.2	046 - 124	1221.25	1208.16	-	-	-	-	-	-	-
Taiwan	(T$)	42.8828	+0.4127	639 - 016	42.9016	42.4555	-	-	-	-	-	-	-
Thailand	(Bt)	39.2293	+0.3555	129 - 456	39.2456	38.7870	-	-	-	-	-	-	-

† Rates for May 29. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

May 31		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P Morgan index
Europe													
Austria	(Sch)	10.7480	-0.034	458 - 501	10.8040	10.7410	10.7285	2.2	10.6865	2.3	10.503	2.3	104.6
Belgium	(BFr)	31.4500	-0.0575	300 - 700	31.5680	31.4300	31.395	2.1	31.28	2.2	30.74	2.3	106.3
Denmark	(DKr)	5.9026	-0.0164	015 - 037	5.9353	5.8960	5.8951	1.5	5.8781	1.7	5.8091	1.6	108.4
Finland	(FM)	4.7200	-0.0108	175 - 225	4.7425	4.7126	4.7135	1.7	4.7015	1.6	4.656	1.4	82.1
France	(FFr)	5.1765	-0.0117	755 - 775	5.1988	5.1730	5.1696	1.6	5.1553	1.6	5.0875	1.7	108.4
Germany	(DM)	1.5275	-0.0048	272 - 277	1.5370	1.5263	1.525	2.0	1.5192	2.2	1.491	2.4	107.5
Greece	(Dr)	241.590	-0.98	490 - 690	243.910	240.220	243.265	-8.3	246.615	-8.3	260.59	-7.9	66.8
Ireland	(I£)	1.5875	+0.0122	867 - 882	1.5909	1.5730	1.588	-0.4	1.5889	-0.4	1.5804	0.4	-
Italy	(L)	1547.85	-1.55	750 - 840	1552.50	1544.75	1554	-4.7	1565.55	-4.5	1606.45	-3.8	75.9
Luxembourg	(LFr)	31.4500	-0.0575	300 - 700	31.5680	31.4300	31.397	2.0	31.2905	2.0	30.81	2.0	106.3
Netherlands	(Fl)	1.7117	-0.0033	114 - 120	1.7201	1.7090	1.7084	2.3	1.7012	2.4	1.6685	2.5	106.2
Norway	(NKr)	6.5318	-0.0232	294 - 343	6.5850	6.5040	6.529	0.5	6.5234	0.5	6.4869	0.7	97.8
Portugal	(Es)	157.840	-0.31	790 - 890	158.100	157.350	157.955	-2.4	158.545	-2.3	160.69	-1.8	94.5
Spain	(Pta)	128.925	-0.22	900 - 950	129.510	128.800	129.175	-2.3	129.605	-2.1	131.145	-1.7	80.0
Sweden	(SKr)	6.7298	-0.0455	249 - 347	6.7855	6.7231	6.7409	-2.0	6.7583	-1.7	6.8003	-1.0	88.6
Switzerland	(SFr)	1.2523	-0.0062	520 - 525	1.2621	1.2505	1.2488	3.4	1.2413	3.5	1.2078	3.5	110.3
UK	(£)	1.5494	+0.0148	490 - 498	1.5500	1.5320	1.5486	0.6	1.5473	0.6	1.5438	0.4	85.3
Ecu	-	1.2344	+0.0032	340 - 347	1.2361	1.2285	1.2351	-0.7	1.2368	-0.8	1.2456	-0.9	-
SDR†	-	0.69130	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9987	-	985 - 988	0.9989	0.9985	-	-	-	-	-	-	-
Brazil	(R$)	[illegible]	+0.0016	[illegible]	[illegible]	0.9973	-	-	-	-	-	-	-
Canada	(C$)	1.3711	+0.0025	708 - 713	1.3726	1.3700	1.3709	0.1	1.3712	0.0	1.374	-0.2	83.5
Mexico	(New Peso)	7.4185	-0.021	160 - 210	7.4210	7.4160	7.58	-26.1	7.765	-18.7	9.5285	-28.4	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	97.9
Pacific/Middle East/Africa													
Australia	(A$)	1.2523	-0.0046	520 - 528	1.2528	1.2520	1.2543	-1.9	1.2578	-1.8	1.2765	-1.9	88.4
Hong Kong	(HK$)	7.7375	+0.0005	370 - 380	7.7380	7.7370	7.7382	-0.1	7.74	-0.1	7.767	-0.4	-
India	(Rs)	35.0300	-0.01	300 - 300	35.2300	34.8300	35.18	-5.1	35.485	-5.2	36.955	-5.5	-
Israel	(Shk)	3.2986	-0.009	969 - 002	3.3296	3.2954	-	-	-	-	-	-	-
Japan	(Y)	108.100	+0.5	050 - 150	108.650	107.890	107.655	4.9	106.755	5.0	103.015	4.7	136.7
Malaysia	(M$)	2.4985	-0.001	980 - 990	2.5010	2.4980	2.4994	-0.4	2.5055	-1.1	2.529	-1.2	-
New Zealand	(NZ$)	1.4717	+0.0082	712 - 723	1.4723	1.4712	1.4748	-2.6	1.4806	-2.4	1.5052	-2.3	-
Philippines	(Peso)	26.1900	+0.01	400 - 400	26.2400	26.1400	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7503	-0.0001	502 - 504	3.7504	3.7502	3.7506	-0.1	3.7518	-0.1	3.7548	-0.1	-
Singapore	(S$)	1.4097	-0.0006	092 - 102	1.4127	1.4093	1.4062	3.0	1.4002	2.7	1.3747	2.5	-
South Africa	(R)	4.3600	-0.015	550 - 650	4.3700	4.3550	4.4075	-13.1	4.4975	-12.6	4.835	-10.9	-
South Korea	(Won)	787.950	-0.3	900 - 000	789.500	787.900	-	-	-	-	-	-	-
Taiwan	(T$)	27.6770	+0.002	720 - 820	27.7380	27.6720	27.682	-0.2	27.687	-0.1	-	-	-
Thailand	(Bt)	25.3190	+0.007	150 - 230	25.3300	25.3150	25.4177	-4.7	25.6215	-4.8	26.504	-4.7	-

† SDR rate per $ for May 29 Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices May 29: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

May 31	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.00	2.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.00	2.50	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.70	-	5.60
week ago	[illegible]	[illegible]	[illegible]	[illegible]	4	3.70	-	5.60
Germany	[illegible]	[illegible]	[illegible]	[illegible]	4	4.50	2.50	3.30
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.30
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.25
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.25
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	9.00	9.25
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	9.00	9.25
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	3.00	3.30
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	3.00	3.30
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.00	1.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.00	1.50	-
US	[illegible]	[illegible]	[illegible]	[illegible]	6	-	5.00	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
$ LIBOR FT London								
Interbank Fixing	-	[illegible]	[illegible]	[illegible]	6	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	4.88	5.06	5.26	5.68	-	-	-
week ago	-	4.88	5.05	5.20	5.55	-	-	-
ECU Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

May 31	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D-Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

May 31		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.77	16.46	4.855	2.003	4921	5.444	20.77	501.3	409.8	21.40	3.981	2.052	4.358	3.179	343.7	2.575
Denmark	(DKr)	53.29	10	8.771	2.587	1.067	2622	2.901	11.07	267.1	218.4	11.41	2.121	1.093	2.323	1.694	183.2	1.372
France	(FFr)	60.75	11.40	10	2.950	1.217	2990	3.308	12.62	304.6	249.0	13.00	2.419	1.247	2.648	1.931	208.8	1.565
Germany	(DM)	20.60	3.865	3.390	1	0.413	1014	1.121	4.277	103.3	84.40	4.408	0.820	0.423	0.898	0.655	70.79	0.530
Ireland	(I£)	49.93	9.370	8.218	2.424	1	2457	2.718	10.37	250.3	204.6	10.69	1.988	1.025	2.176	1.587	171.6	1.286
Italy	(L)	2.032	0.381	0.334	0.099	0.041	100.	0.111	0.422	10.19	8.328	0.435	0.081	0.042	0.089	0.065	6.985	0.052
Netherlands	(Fl)	18.37	3.447	3.023	0.892	0.368	903.9	1	3.815	92.08	75.27	3.931	0.731	0.377	0.801	0.584	63.14	0.473
Norway	(NKr)	48.15	9.037	7.926	2.338	0.964	2370	2.622	10	241.4	197.3	10.31	1.917	0.988	2.099	1.531	165.5	1.240
Portugal	(Es)	19.95	3.743	3.283	0.968	0.400	981.8	1.086	4.142	100.	81.74	4.269	0.794	0.409	0.869	0.634	68.58	0.514
Spain	(Pta)	24.40	4.579	4.017	1.185	0.489	1201	1.328	5.068	122.3	100.	5.223	0.971	0.501	1.064	0.776	83.88	0.628
Sweden	(SKr)	46.72	8.768	7.690	2.268	0.936	2299	2.544	9.703	234.2	191.5	10	1.860	0.959	2.036	1.486	160.6	1.203
Switzerland	(SFr)	25.12	4.714	4.135	1.220	0.503	1236	1.368	5.216	125.9	102.9	5.376	1	0.516	1.095	0.799	86.34	0.647
UK	(£)	48.75	9.145	8.021	2.366	0.976	2398	2.653	10.12	244.3	199.7	10.43	1.940	1	2.124	1.549	167.5	1.255
Canada	(C$)	22.94	4.306	3.776	1.114	0.460	1129	1.249	4.765	115.0	94.02	4.911	0.913	0.471	1	0.729	78.86	0.591
US	($)	31.46	5.904	5.178	1.527	0.630	1548	1.713	6.533	157.7	128.9	6.733	1.252	0.645	1.371	1	108.1	0.810
Japan	(Y)	29.09	5.460	4.789	1.413	0.583	1432	1.584	6.042	145.9	119.2	6.227	1.158	0.597	1.268	0.925	100.	0.749
Ecu		38.83	7.287	6.391	1.885	0.778	1911	2.114	8.064	194.7	159.1	8.311	1.546	0.797	1.692	1.234	133.5	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Jun	0.6520	0.6566	+0.0048	0.6581	0.6512	33,776	79,916
Sep	0.6555	0.6603	+0.0048	0.6615	0.6575	1,503	8,303
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Pound in New York

May 31	—Close—	—Prev. close—
£ spot	1.5515	1.5345
1 mth	1.5507	1.5337
3 mth	[illegible]	[illegible]
1 yr	[illegible]	[illegible]

FT GUIDE to WORLD CURRENCIES
The FT Guide to World Currencies table can be found on the Markets page in today's edition.

FT GOLD MINES INDEX

	May 31	% chg since 29/12/95	Mkt Cap $bn	% of Gold Mines	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (37)	2278.88	+24.2	60.40	100.00	1.29	-	2820.73	1722.98
Regional Indices								
Africa (13)	3119.26	+24.7	18.58	27.44	[illegible]	42.47	3553.86	2272.74
Australasia (6)	2668.29	+12.8	6.40	10.60	2.45	29.87	2927.34	2098.51
North America (12)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1498.94

SCHNEIDER SA

Second Notice of General Meeting
Meeting of Guaranteed Exchangeable Bonds due 2003
SQUARE D

The General Meeting of the Masse of the holders of the 2 per cent Guaranted Exchangeable Bonds due 2003 of SQUARE D Company, invited by a first notice to attend the General Meeting on the 29th of May 1996, having been unable to deliberate, the quorum being not present, the holders of such bonds, are invited to attend the General Meeting to be held on the 12th of June 1996 at 10.00 a.m. at the office of the COMPAGNIE FINANCIÈRE DE CIC et de L'UNION EUROPÉENNE, 4 rue Gaillon PARIS 2e, to consider the following agenda:

- The report of the Board of Directors and of the Supervisors.
- The examination of the merger-absorption of SCHNEIDER SA by SPIE BATIGNOLLES.
- The approval, subject to the decision of the General Meeting of the shareholders of SCHNEIDER SA, of the authorization given to the Board of Directors of SCHNEIDER SA to issue:

- warrants;
- convertible bonds;
- bonds with warrants;
- tradeable securities which are convertible into, exchangeable for or reimbursable with shares of SCHNEIDER SA; for a maximum amount of FF 10 billion, representing subscription right to an aggregate number of shares which can total no more than a nominal amount of FF 5 billion.

In connection with any such issuance of securities, carrying preferential subscription right, SCHNEIDER's shareholders should renounce any preferential subscription rights to subscribe shares issued in respect of the warrants, convertible bonds and other tradeable securities.

- The approval, subject to the decision of the General Meeting of the shareholders of SCHNEIDER SA, of the authorization given to the Board of Directors of SCHNEIDER SA to issue:

- shares with or without warrants;
- convertible bonds;
- bonds with warrants;
- tradeable securities which are convertible into, exchangeable for or reimbursable with shares of SCHNEIDER SA; for a maximum amount of FF 10 billion, representing subscription right to an aggregate number of shares which can total no more than a nominal amount of FF 5 billion.

In connection with any such issuance of securities and shares, SCHNEIDER's shareholders should renounce any preferential subscription rights.

- The approval, subject to the decision of the General Meeting of the shareholders of SCHNEIDER SA, of the authorization given to the Board of Directors to approve the issuance of shares in connection with the issuance, by companies in which SCHNEIDER SA holds, directly or indirectly, a majority of the outstanding share capital, of warrants, bonds, other tradeable securities or subordinated securities which are convertible into, exchangeable for or reimbursable with, shares. In connection with any issuance of shares, SCHNEIDER's shareholders should renounce any preferential subscription rights. Furthermore the issuance of any such shares is limited to an aggregate nominal capital increase of FF 5 billion.

- Any other business.

In order to attend or be represented at the meeting, holders of bonds must deposit, at least five clear days prior to the meeting at the head office, the certificate of deposit, issued by the bank, financial institution or stockbroker with whom the bonds are lodged.

THE BOARD OF DIRECTORS

GROUPE SCHNEIDER

Electricité de France

U.S. $150,000,000

Floating Rate Notes due 2002

In accordance with the provisions of the Notes, notice is hereby given that the Rate of Interest for the six month period ending 29th November, 1996 has been fixed at 5.33594% per annum. The interest accruing for such six month period will be U.S. $26.98 per U.S. $1,000 Bearer Note, and U.S. $269.76 per U.S. $10,000 Bearer Note and U.S. $2,697.61 per U.S. $100,000 Bearer Note on 29th November, 1996 against presentation of Coupon No. 8.

Union Bank of Switzerland
London Branch Agent Bank

29th May, 1996

Republic of the Philippines

US$691,465,000 Series 1992 B Floating rate bonds 2009

The B Bonds will bear interest at 6.4375% per annum for the period 3 June 1996 to 2 December 1996. Interest payable on 2 December 1996 per US$1,000 note will amount to US$32.55.

Agent: Morgan Guaranty Trust Company

JPMorgan

Korea International Merchant Bank
(Incorporated with limited liability in the Republic of Korea)

US$30,000,000
Negotiable United States Dollars
Floating Rate Certificate of Deposit due Nov 1999

In accordance with the provisions of the Certificates of Deposit, notice is hereby given that for the period from 30/5/96 to 29/11/96 the Certificates will carry an Interest Rate of 6.025% per annum calculated on a principal amount of:

US$7,656.77 per Certificate of US$250,000

Standard Chartered

Standard Chartered Bank as Reference Agent

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 39p/minute cheap rate and 49p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (+44 171) 873 4378.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

[illegible]

BERMUDA (REGULATED)(**)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

Sarasin Funds Mngmt (Guernsey) Ltd

Schroder Investment Mngmt (Guernsey) Ltd

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

LGT Asset Management Ltd

[illegible]

IRELAND (REGULATED)(**)

[illegible]

Dragon Korea Fund Plc

Dynamic Pacific Portfolio Fund Plc

Eperton Capital European Fund Plc

Emerging Dynamic Fund Plc

Emerging Market Growth Fund Plc

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

CMI Fund Managers (IoM)

Mercury Fund Managers IoM Ltd

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

Jupiter Tyndall (Jersey) Ltd

Lloyds Private Banking (CI) Ltd

Lombard Odier (Jersey) Ltd

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

Fidelity Funds - Contd.

Fleming Group (a)

[illegible]

Schroder International Selection Fd - Contd.

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 39p/minute cheap rate and 49p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (+44 171) 873 4378.

	Selling Price	Buying Price	Yield Gross	City-Line

Credis Investment Funds - Contd.

NICAM Asia Pacific Umbrella Fund

Nikko Bank (Luxembourg) S.A.

Nikko Capital Management

Nomura Asian Infrastructure Fd SICAV

Pacific Basin Growth Fund

CMI Insurance Co Ltd

Royal Skandia Life Assurance Ltd (z)

Chescor Indian Investment Company Ltd

The China Fund

The China Invest & Development Fd Ltd

Citibank Global Asset Mgmt (Asia) Ltd

Citizens Investment Trust Mgt Co Ltd

Global Asset Management - Contd.

Magnum Funds

Regent Asset Management

Malaysia Capital Fund Ltd

Regent Kingpin Capital Management Ltd

Republic Funds

OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

NAV Fully Paid Apr 30	$11.20		–	44033
Wells Fargo U.S. IT Fund				
Worldwide Limited				
NAV Apr 30	$84.44		–	45063
Xiphias International Investment Fd Ltd				
Zenett Lombardier Ltd				
NAV May 1	$182.34		–	54380
Zulauf Investment Management AG				
Zweig–DiMenna International Limited				
NAV Apr 30	$14977		–	–

MANAGED FUNDS NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars.
Yields % allow for all buying expenses.
Prices of certain older insurance linked plans subject to capital gains tax on sales.
(*) Funds not SIB recognised. The regulatory authorities for these funds are:
Bermuda - Bermuda Monetary Authority
Guernsey - Financial Services Commission
Ireland - Central Bank of Ireland
Isle of Man - Fiscal Supervision Commission
Jersey - Financial Services Department
Luxembourg - Institut Monetaire Luxembourgeois.
Initial charge - Charge made on sale of units.
Selling price - Bid or redemption price
Buying price - Offer or issue price.
Time - The time shown alongside the fund manager's name is the time of the fund's valuation point unless indicated by one of the following symbols:
(◆) - 0001 to 1100 hours
(◆) - 1101 to 1400 hours
(◆) - 1401 to 1700 hours
(◆) - 1701 to midnight
E - Exit charge on sale of units
C - Manager's periodic charge deducted from capital.
H - Historic pricing F - Forward pricing
h - Distribution free of UK taxes.
p - Periodic premium insurance plans.
s - Single premium insurance
u - Designated as a UCITS (Undertakings for Collective Investment in Transferable Securities).
x - Offered price includes all expenses except agent's commission.
z - Previous day's price
G6 - Guernsey gross.
◆ - Yield before Jersey tax.
† - Ex-subdivision. xd - Ex-dividend.
‡ - Only available to charitable bodies
♦ - Yield column shows annualised rates of NAV increase.

The fund prices on these pages are also available on the Internet at www.FT.com

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

[illegible]

BANKS, MERCHANT

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HEALTH CARE - Cont.

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LEISURE & HOTELS - Cont.

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

OTHER FINANCIAL - Cont.

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PHARMACEUTICALS - Cont.

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are calculated on a "net" basis.

Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- ‖ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend: cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending q Earnings based on preliminary figures s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1996-97. G Assumed dividend after pending scrip and/ or rights issue. H Dividend based on prospectus or other official estimates for 1995 K Dividend based on prospectus or other official estimates for 1996. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1995-96. N Dividend is paid in whole or part as a FID (Foreign Income Dividend). Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion

FT Share Service

The following changes have been made to the FT Share Information Service: **Additions: Millennium & Copthorne (Les &Htl), Atlantis Japan Gwth Ord & Wrts (Oth In Tst), UPM-Kymmene (PP & P), Vanguard Medica (Pharms), MSB Intl and Premiere Grp (Sup Servs), Active Imaging, CCI, La Senza and Stentor (AIM). Deletions: Manakin (Inv Tst) and Enviromental Inv Wrts (Inv Co's).**

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Reports published by ShareFinder Ltd.

FT Cityline

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For readers phoning from outside UK, please dial +44 in place of the first 0.
The share prices printed on these pages are also available on the internet at www.FT.com.

NEW YORK STOCK EXCHANGE PRICES

4 pm close May 31

1996 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
23¾	19⅛	AAR	0.48	2.2	24	102	22¼	22	22⅛	+⅛
48⅛	36⅝	AMP	1.00	2.4	20	4028	43	42	42⅛	-⅜
87½	63	AMR			23	3598	94⅞	82¾	94⅝	+⅞
50½	37¾	ASA	1.80	4.0	30	923	45⅝	44⅝	45½	+¾
44¾	39⅛	AbbtL	0.96	2.2	19	9707	43⅞	42⅝	43⅛	+¼
17¼	13⅞	Abitibi Pr x	0.40	2.9	7	419	13¾	13½	13⅝	
38¼	27	ABM Ind	0.70	1.8	20	171	u38¼	35½	38⅛	+3
17⅞	13⅞	Acpincalo			45	80	u17⅞	17⅛	17⅞	+⅛
50⅞	37¾	ACE Ltd	0.56	1.1	11	2028	49	48¼	49	-¼
9⅞	9⅛	ACM Gvt In	0.80	9.2	8	106	u9⅞	9¾	9¾	
7⅞	6¾	ACM GvOpp	0.57	8.3		34	6⅞	d6¾	6⅞	+⅛
7¼	6¼	ACM Gvt Sp	0.68	10.6		477	6½	d6¼	6¼	-⅛
8⅛	8¼	ACM Gvt Se	0.90	10.4		137	8⅝	8½	8⅝	+⅛
9½	8¾	ACM Man	0.90	9.8		58	9⅛	9	9⅛	
30⅞	16½	AcmeClr	0.52	1.8	7	377	29¾	29½	29⅝	+⅛
13⅞	6⅛	Acme Elect			68	654	12⅞	12⅜	12½	+¼
32½	27¼	Acordia x	0.80	2.5	19	34	31¾	31½	31¾	+⅛
21⅞	12	Acuson			88	645	19¼	18⅞	19⅛	-⅛
19½	18⅛	Adams Expr	1.66	8.7	0	233	19¼	19⅛	19⅛	-⅛
21¼	16⅛	AdvMic			7	5201	17⅞	17½	17⅞	-⅛
11⅞	8½	Advest Grp	0.16	1.6	7	44	10¾	10⅝	10¾	
28⅛	9⅛	Advo Inc	0.10	0.9	60	288	11	10¾	10⅞	+⅛
50⅞	41⅛	Aegon	1.29	2.8	14	92	48⅛	47⅞	48	-½
6⅞	3½	Aetlx			4	387	6⅞	6⅛	6¼	
78¾	65⅞	Aetnal	2.76	3.7	18	8428	74⅛	72¾	73¾	+½
33	28¾	Aflac	0.40	1.3	12	1251	31	30⅛	30⅛	-⅝
20⅝	17⅞	AGL Res	1.08	6.0	15	376	17⅞	17⅝	17⅞	-¼
28¾	21¼	Ahmanson	0.88	3.4	7	4777	25⅞	25⅝	25¾	
60⅞	50⅞	AirPrC	1.10	1.8	15	2135	59⅞	59⅛	59½	-½
28⅝	23½	Airbne Frt	0.30	1.2	23	231	25⅝	25	25¼	-⅛

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Continued on next page

4 pm close May 31

NYSE PRICES

Continued from previous page

- V -

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- T -

- U -

- X - Y - Z -

Price data supplied by Telekurs

NASDAQ NATIONAL MARKET

4 pm close May 31

- A -

- B -

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- G -

- H -

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- M -

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- O -

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AMEX PRICES

4 pm close May 31

FT GUIDE TO THE WEEK

MONDAY 3

British beef battles back

EU farm ministers are likely to reject the Commission's proposal for an early lifting of the ban on UK exports of beef by-products. The move will force the Commission to impose the measure unilaterally. Meanwhile, negotiations seem well underway on a framework agreement for the broader ban to be lifted. Both conditions laid down by John Major, the UK prime minister, as precursors to Britain ending its non-cooperation with the EU, would then be fulfilled.

Arafat makes Oxford speech

Yasser Arafat, the Palestinian president, makes his first speech since the election of Benjamin Netanyahu as Israeli prime minister cast doubts on the future of the Middle East peace process. Mr Arafat will address the Oxford Union after meeting the UK prime minister, John Major (to June 4).

Nato conference in Berlin

Nato generals and politicians from the member states meet in Berlin to reform the internal structures of the military organisation (to June 4). The aim is to give Nato greater response flexibility. At the same time, there is expected to be a debate about how far to go in expanding Nato eastwards – which unsettles Russia.

UK blocks EU decisions

Britain's blocking of decisions requiring unanimity in the council of ministers will impact on meetings of EU finance and, separately, social affairs ministers. Policies likely to fall include measures to combat fraud in the EU and a proposal to make 1997 the "Year against Racism". Preparations for the heads of state summit in Florence will not be affected.

Greece holds shipping fair

Athens' port of Piraeus hosts the biennial Posidonia international shipping fair. It will be attended by several thousand shipowners, bankers, brokers, insurers, shipbuilders and marine equipment suppliers. However, most business is done during a dizzying round of parties and aboard Greek tycoons' yachts (to June 6).

UN conference on cities

The United Nations Conference on Human Settlements opens in Istanbul to discuss the future of the world's overcrowded cities (to June 14). This is the last in the series of UN mega-conferences following those on women (Beijing), population (Cairo), human rights (Vienna), the environment (Rio de Janeiro) and the "social summit" (Copenhagen).

Turkey no-confidence debate

Turkey's parliament begins a no-confidence debate which is expected to culminate in a defeat for the minority conservative coalition government of Mesut Yilmaz. Mr Yilmaz's alliance partner, Tansu Çiller, and the Islamist Refah party have both said they will vote against him. If he loses, Mr Yilmaz or another party leader must try to form a new cabinet. If all else fails elections will be called – only seven months after polls gave no party a clear mandate.

FT Survey

Turkey.

Public holidays

Cook Islands, Cyprus, Greece, Iran, Ireland, New Zealand, Uganda, Ukraine.

Monica Seles of the US triumphs over Magdalena Maleeva of Bulgaria to move into the quarter-finals of the French tennis Open. The finals are at the weekend

TUESDAY 4

Irish president visits UK

Mary Robinson, the president of Ireland, arrives in London on the first official visit to the UK by an Irish head of state since its independence (to June 7). Her trip celebrates the links between the countries at a time of increasing proximity between their governments. Ireland also represents Britain's sixth biggest export market. As well as seeing the prime minister, John Major, and the leaders of the Labour party and the Liberal Democrats, Mrs Robinson will breakfast with leading industrialists. She will have lunch at Buckingham Palace and, in deference to the Viking roots it shares with Dublin, visit York.

Europol compromise threat

The meeting of EU justice and home affairs ministers in Luxembourg is likely to be disrupted by Britain's non-co-operation. One of the main subjects will be Europol, the EU-wide police force designed to tackle problems such as terrorism and the drugs trade. A compromise aimed at meeting the UK's objections to a ruling on Europol disputes could become a victim of the UK's policy. Other subjects include the battle against illegal employment of immigrants from third countries.

WTO in US maritime talks

Senior negotiators meet at the World Trade Organisation in Geneva to see what can be salvaged from the wreckage of talks on liberalising maritime services following Washington's apparent decision to withdraw (to June 30). The EU has been negotiating to present a package of market-opening offers in the hope that the US can be persuaded to change its mind. However, an about-turn is unlikely, given the strength of the US maritime lobby and the impending US presidential election.

FT Survey

World Shipping.

Public holidays

Ghana, Iran, Tonga.

WEDNESDAY 5

Opec debates oil quotas

Iraq's return to the international oil market will be the main topic at the annual conference of the oil ministers of the Organisation of Petroleum Exporting Countries (Opec) in Vienna. Last month's agreement with the UN gave Baghdad the right to export 700,000 barrels a day. This would take the daily output of Opec countries above the official limit of 24.52m. Some of the 12 states are calling for a cut in quotas to prevent a drop in oil prices.

Franco-German summit

French and German state and government leaders hold their 67th round of consultations in Dijon, France. High on the agenda will be military co-operation as well as attempts to break the deadlock over a proposed European Union energy law, which could pave the way for gradual liberalisation of the energy sector.

Athletics

IAAF grand prix meeting, Rome.

FT Survey

FT Review of Information Technology.

Public holidays

Denmark, Equatorial Guinea, Seychelles, St Pierre.

THURSDAY 6

World chess championship

Anatoly Karpov, the International Chess Federation (Fide) world championship holder, begins a much-postponed match with Gata Kamsky (to July 14). The 20 games will be in the Caucasian republic of Kalmykia, whose 34-year-old president, Kirzhan Ilyumzhinov, is putting up $2m (£1.3m). Ilyumzhinov is also the Fide president. The winner should meet Garry Kasparov, the real number one and champion of a breakaway group.

China/US discuss piracy

Chinese and American negotiators resume talks on China's implementation of a February 1995 agreement on curbing intellectual property rights abuses (to June 7). The US has threatened to impose sanctions on Chinese imports unless Beijing fulfils undertakings to stop rampant piracy of US entertainment and information products. The deadline is June 17. China has said it will retaliate.

Cricket

First Test match, England v India, Birmingham (to June 10).

Golf

English Open, Forest of Arden (to June 9).

FT Survey

Brazil and the state of Bahia.

Public holidays

Andorra, Austria, Bolivia, Brazil, Chile, Costa Rica, Dominican Republic, Equatorial Guinea, Germany (many länder), Grenada, Korea, Liechtenstein, Monaco, Poland, Portugal, San Merino, Seychelles, South Korea, St Lucia, Switzerland (many cantons), Trinidad, Vatican City.

FRIDAY 7

Japanese confidence tested

Fresh light will be thrown on Japan's economic recovery following its worst downturn since the 1930s, when the Bank of Japan releases its quarterly Tankan survey of corporate confidence. The index is expected to register a slight improvement on the last Tankan, which showed Japanese companies were at their least gloomy for four years. However, the balance between businesses reporting better and worse conditions is likely to remain slightly negative. This would confirm the BOJ's belief that now is not the time to raise interest rates.

FDP congress in Germany

The liberal Free Democrats, the junior coalition partner of Germany's chancellor, Helmut Kohl, hold their annual congress in Karlsruhe, Baden Württemburg (to June 9). Although there may be attempts by the party's traditional wing to revive the civil liberties profile of the FDP, the message from Wolfgang Gerhardt, its leader, is that the liberals are Germany's only real proponents of low taxation.

Horse racing

The English Oaks, a classic 1½-mile race for three-year-old fillies, is contested at Epsom racecourse, near London.

Athletics

IAAF grand prix meeting, Moscow.

FT Survey

Bahamas.

Public holidays

Bahamas, Malta.

SATURDAY 8

French PM goes to Canada

Alain Juppé arrives in Ottawa for the first visit by a French prime minister to Canada since 1987. Mr Juppé's talks with Jean Chrétien, his Canadian counterpart, are expected to focus on the upcoming meeting of the G7 group of leading economic powers in Lyons. However, interest will centre on Mr Juppé in Quebec. The French-speaking province's separatist government would like a hint of an endorsement for Quebec independence.

Peru offers big equity issue

In promoting what may be Latin America's largest equity offering this year, the roadshow of Telefonica del Peru starts in Miami. The team seeks foreign investors to buy up to $1.4bn in shares and will visit 23 cities in the US, Asia and Europe.

Football

Euro 96 – the European football championship finals – kicks off at Wembley stadium, London, with England playing Switzerland. The qualifying started in September 1994, with 47 national teams. Now, 230 games later, 16 finalists compete in a tournament that is expected to attract around 250,000 foreign fans to British stadiums. The favourites are Germany, Italy and Holland. The tournament is the world's third largest sports event – after the Olympic Games and the soccer World Cup.

Horse racing

The English Derby, for three-year-old colts – 1½ miles, Epsom racecourse – is likely to be an unusually wide-open race.

SUNDAY 9

A bridge too far?

Voters decide whether to spend up to SFr700m (£363m) on a road suspension bridge or tunnel across Lake Geneva in Switzerland. The idea – to relieve Geneva's traffic congestion – was approved in a 1988 referendum. However, it may not be needed and a Yes vote would mean higher vehicle licence duties – painful for a city with one car for every two inhabitants.

50th anniversary of Thai king

Thailand celebrates the 50th anniversary of the coronation of King Bhumibol Adulyadej, the world's longest-reigning monarch. Although a constitutional monarch, the king, through his many social work programmes and discreet but intense interest in his country, has gained so much respect that he has built up a "reserve power" – which he has exercised in moments of crisis.

Compiled by Simon Strong.
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ECONOMIC DIARY

Other economic news

Monday: The UK's purchasing managers' index should underline current manufacturing weakness although demand for consumer goods is expected to have strengthened. Growth in UK M0, the narrow money supply measure, is expected to have risen again last month, pointing to strength on the high street.

Tuesday: Economists think US factory goods orders fell in April. Japan is expected to record a further contraction in its trade account surplus in April.

Wednesday: German gross domestic product is forecast to have fallen again in the first quarter of this year. However, German manufacturing orders data for April due this week are expected to show that demand has begun to recover. No change in interest rates is likely at the latest UK monetary meeting between the chancellor and the governor of the Bank of England.

Thursday: The latest snapshot of UK retail sales will be provided by the Confederation of British Industry's distributive trades survey for May.

Friday: The US employment report is expected to show a further steady increase in non-farm payroll jobs last month.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	US	May domestic auto sales	7.3m	7.0m
June 3	US	May domestic light truck sales	6.1m	5.8m
	US	Apr leading indicators	0.2%	0.2%
	US	May Nat Ass purchasing managers	51.2%	50.1%
	US	Apr construction spending	-0.1%	3.1%
	Japan	May auto sales**	-	-0.1%
	Japan	May forex reserves*	-	0.9%
	UK	May chart inst purchasing mngrs	-	48.3%
	UK	May M0*	0.2%	0.5%
	UK	May M0**	5.9%	5.6%
Tues	US	Mitsubishi indx	-	3.0%
June 4	US	Apr factory orders	-0.9%	1.6%
	US	Apr factory inventories	-	unch
	US	Johnson Redbook June 1	-	6.3%
	Japan	May trade balance (1st 20 days)	-	Y155bn
	UK	May official reserves	-	-$64m
Wed	US	Apr home completions	-	1.39m
June 5	Germany	1st qtr gross dom prod (West)***	-0.2%	-0.6%
	Germany	1st qtr gross dom prod (West)**	0.4%	0.8%
	Germany	1st qtr GDP (pan-Germany)***	-0.5%	-0.4%
	Germany	1st qtr GDP (pan-Germany)**	0.2%	1.0%
	Italy	May consumer price indx*	0.4%	0.6%
Thur	US	Weekly M2 w/e May 27	$4.4bn	-
June 6	US	Initial claims w/e June 1	346,000	-
	UK	May CBI distributive trades	-	n/a
Fri	US	May non-farm payrolls	170,000	2,000
June 7	US	May manufacturing payrolls	4,000	-17,000
	US	May hourly earnings	0.1%	0.6%
	US	May average workweek	-	34.3
	US	May unemployment rate	5.5%	5.4%
	US	Apr wholesale trade	-	0.4%
	US	Apr consumer credit	$8.0bn	$8.3bn
	Japan	May Bank of Japan Tankan survey	-	n/a
	Japan	May BoJ Tankan DI (manufacturing)	-6.0%	-12.0%
	Japan	May BoJ Tankan DI (non-manuf)	-13.0%	-18.0%
	Japan	1996 Tankan capital spending	3.0%	0.6%
	UK	Apr housing starts	-	n/a
During the week...				
	Germany	Mar trade balance	DM7.5bn	DM8.8bn
	Germany	Mar current a/c	DM0.0bn	DM0.7bn
	Germany	Apr manuf'g orders (pan-Germany)*	0.5%	1.2%
	Germany	Apr industrial prod (pan-Germany)*	0.9%	2.1%
	Germany	Apr manuf'g output (pan-Germany)*	0.3%	1.0%
	Germany	Apr industrial production (West)*	-	1.6%
	Germany	Apr capital a/c	-	-DM4.8bn
	Germany	Apr net foreign sector purchases	-	-DM4.9bn
	Germany	May final cost of living (West)*	-	0.1%
	Germany	May final CoL (pan-Germany)*	-	0.1%
	Germany	May Final CoL (pan-Germany)**	-	1.5%

*month on month, **year on year, ***qtr on qtr, † seas/adj Statistics, courtesy MMS International.

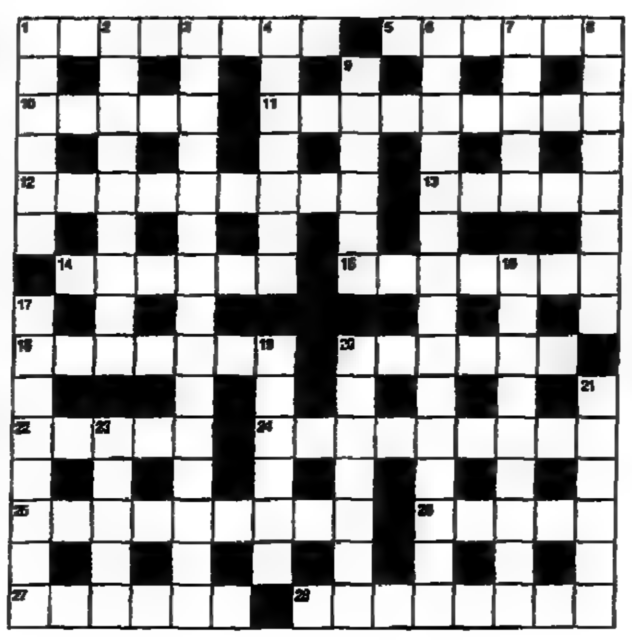
MONDAY PRIZE CROSSWORD
No.9,084 Set by DANTE

ACROSS

1 Highly attractive part of Belgium (8)
5 Keen insight shown by a hundred upper-class types (6)
10 The ghost of Shakespeare? (5)
11 Medical treatment in battle (9)
12 Vital to take doctor and soldiers to America (9)
13 Batsman's prayer before digging in? (5)
14 It comes straight from the heart (6)
15 Figure the mob rush out to see (7)
18 Nine to five, he goes round the old city (7)
20 Soldiers holding deserter without charge (6)
22 It flies a welcome in the British fleet (5)
24 Style of writing suitable for circular letters? (5,4)
25 Fruit I can mince in a machine (9)
26 Show girl without sex appeal? (5)
27 Keeping secret can mean a thrashing (6)
28 Hands and feet, for example (8)

DOWN

1 They are bound to hold different views, for instance (6)
2 Collected stories of French romance, perhaps (9)
3 Sort of policy for keeping out of trouble (15)
4 Saving firm beset by money trouble (7)
6 Reason for a moving communication (6,2,7)
7 Obtain a girl's name, or I am upset (5)
8 Absurd production of Lear? (8)
9 Landlord offers reduction without commission (6)
16 Officer of vessel I read about (9)
17 Go over the limit (8)
19 Letting the telephone sound after a call for attention (6)
20 Holy food from Switzerland (7)
21 Ladies in fashion or models (6)
23 Soft-hearted diva, uncommonly flat (5)



A prize of a Pelikan New Classic 380 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday June 13 marked Monday Crossword 9,084 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday June 17. Please allow 28 days for delivery of prizes.

Name

Address

Winners 9,073

Iain Spark, Paris,
Clive Bainbridge, Northolt
Mrs Sarah Gregory, Lincoln
S.R. Palmer, Langley, Berkshire
J.W. Pentelow, Uxbridge
Lisa Jones, Chipping, Lancs.

Solution 9,073

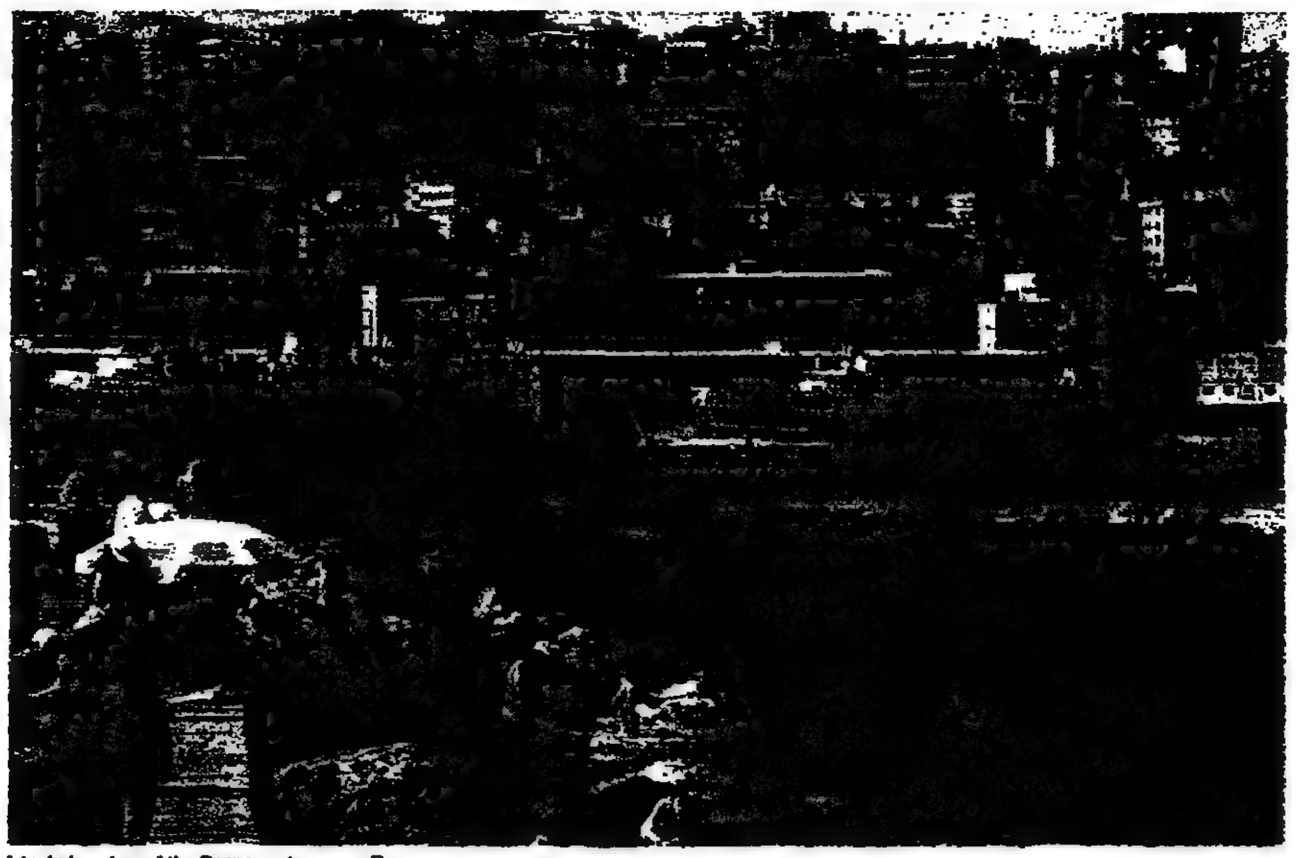
JOTTER PAD

هكذا من الاصل

FINANCIAL TIMES SURVEY Monday June 3 1996

TURKEY

Riot police clash with May Day demonstrators last month in Istanbul



Istanbul: a view of the Bosporus (see page 5)

IN THIS SURVEY

Editorial production: Gabriel Bowman

A slim chance to stop the drift

Hard realities have again closed in on the country, following the breakdown of the Motherland-True Path coalition. This survey was written by John Barham

By tradition, Turkey's long, hot summers are a time when Turks can turn their backs on their country's problems. Difficulties which appeared so overwhelming only a few months ago, seem to diminish, if not vanish completely. Worries over inflation, inoperative government; even the interminable war against Kurdish separatists in the south-east, all seem to get lost in the haze of summer.

But not this year. Summer has intensified the political battle between the country's two rival conservative leaders – Mr Mesut Yilmaz, the prime minister, and Mrs Tansu Çiller, his predecessor. Today parliament is to begin a no-confidence debate which will probably end their three-month-old minority coalition government.

Turkey has been adrift since September last year, when Mrs Çiller called early elections. The elections, held on December 24, produced a hung parliament, giving no party a clear mandate to rule although the Islamist Refah party won most votes, taking 158 seats in the 550-member parliament.

The fight to the finish between Mr Yilmaz and Mrs Çiller for control of the divided centre-right is disrupting the entire country. Decision-making in the capital, Ankara, is paralysed because the cabinet has ceased to function normally. Business decisions are also on hold wherever possible: planning more than 60 days ahead is considered too risky.

The struggle for supremacy between the Motherland party of Mr Yilmaz and Mrs Çiller's True Path party is not new: the centre-right split 13 years ago as Turkey returned to civilian rule. This conflict has virtually halted reform since early 1990s, allowing Turkey's array of social, economic, political and foreign policy problems to escalate to their present critical state.

An ungainly alliance between the True Path and the centre-left People's Republican party (CHP) ruled Turkey from 1991-96 first under Mr Süleyman Demirel, now the president, then under Mrs Çiller, while Motherland remained in opposition. But the left-right coalition's ideological division prevented important economic reform and political reforms.

Neither Mr Yilmaz nor Mrs Çiller has successfully addressed issues such as Turkey's unsustainable government budget deficits; its collapsing infrastructure; rising social discontent; the 12-year Kurdish rebellion in the south-east; remedying Turkey's human rights record. Although there is a national consensus on how to solve many of these issues – an opinion poll recently found that 57 per cent of Turks support privatisation – action requires determined government.

Turkey's troubles are becoming so acute that delay in confronting them is making the inevitable reforms infinitely more painful.

The most obvious and dangerous hazard is the risk of an impending financial market crisis or even hyperinflation caused by rapidly mounting government budget deficits (up by one-third in dollar terms over last year, to a forecast $12bn). Nearly all of this must be financed locally, but could soon grow too big for domestic markets to handle.

The treasury's debt rose by nearly a quarter in dollar terms between January and April alone, to almost $30bn. Real yields now stand at about 50 per cent a year and maturities are no greater than 180 days, reflecting deep misgivings over the credibility of government policies.

The huge transfer of wealth from the treasury to its lenders – roughly $8bn in 1995, maybe twice that this year – is further dividing society between an increasingly wealthy and ostentatious minority and the majority struggling to survive inflation and low wages.

Social discontent is rising as opportunities for advancement among the dispossessed recede. Adequate education, housing and jobs appear beyond the reach of more and more people. A bloody May Day rally in Istanbul in which three people were killed revived fears, particularly in the business community and the middle classes, of more unrest to come.

Yet it would be wrong to write Turkey off as a basket case. Most of its problems can be resolved by a period of decisive government. Whichever party or coalition rules Turkey next could quickly slay inflation, assuming it has the political will.

Aggressive tax reform is needed to close loopholes, widening the tax base, lowering rates and stamping out evasion. Tax dodging is so widespread that closing down the underground economy (reckoned to be as large as the official one) would easily eliminate the budget deficit.

Lowering inflation would make the treasury's debts more manageable and bring down interest rates, so that companies would invest more. Deregulation and privatisation would further cut government deficits, boosting productivity and growth as well. Privatising the utilities would also avert impending electricity cuts.

Turkey's economy is a chronic underperformer, but growth could accelerate to 8 per cent a year in a stable environment, fostering social stability by creating more jobs, raising living standards and reducing the widening gap between rich and poor.

A strong, stable Turkey could even feel confident enough to find a political solution to the 12-year Kurdish uprising. The military justifies its campaign in the south-east by claiming guerrillas of the Kurdistan Workers party (PKK) are supported only by Turkey's traditional enemies, Syria and Greece. Mrs Çiller used to bolster her weak 1993-96 coalition government by stoking anti-PKK nationalist fervour.

The war looks unwinnable by either side. Tantalisingly, aides to Mr Yilmaz promised a package of reforms legalising broadcasts and education in Kurdish as well as decentralising government and increasing subsidies. This would go a long way to ending the rebellion, but security hardliners have blocked the changes, so fighting continues.

Stopping the bloodshed would save many lives – over 20,000 civilians, guerrillas and soldiers have died since fighting began in 1984. It would also remove the biggest blemish on Turkey's international reputation and constraint on foreign policy. Freed of an image of brutal oppressor of minorities and backed by a vibrant economy, Turkey could play the important role in European affairs it craves.

Sadly, however, few observers can see any of the above happening soon because the political deadlock is so tight.

Mr Cem Duma, a top diplomat turned business consultant, says "there is no rational dialogue" between the bureaucrats and politicians who defend the corporatist system of big state companies, strong government and powerful army and the proponents of international cooperation, free markets and minimalist government.

Mr Albert Nekimken, director of research at Istanbul's Demirbank, adds that the business world is content to allow the present situation to continue simply because it is so profitable – investors earn real returns of 20-50 per cent a year lending to the government.

Unless the centre-right forms a viable government able to turn the economy around, Mr Selim Oktar, general manager of Strateji-Mori, Turkey's leading polling company, reckons Refah, which took one-fifth of the vote in the December election could take over one-third of the votes if elections were held now, possibly giving it a majority in the 550-member parliament.

Although Refah claims to speak for the poor, disgusted at government corruption and despairing of ever obtaining a minimum of social justice, even some captains of industry believe a coalition with Refah's participation could bring a period of stable government. Big business trusts Motherland's formidable economic team, led by Mr Rüşdü Saraçoğlu and reckons it can live with the Islamists.

Mr Erol Sabanci, scion of one of Turkey's most powerful industrial families says a "Motherland-Refah [coalition] would be better-performing than this government. Personally, I am not worried about [Refah] in government. I am not saying they will be successful or not, but [the threat of Refah] has been exaggerated outside Turkey."

Yet Refah's populism could spell economic disaster if allowed full rein. Its radical core, which wants to establish an Islamic republic, could lead to trouble with the army.

Doomsday scenarios are two-a-penny in Turkey these days. Some pundits predict Algerian-style civil war, others a Brazil-like hyperinflationary collapse into disorder, or a return to the street fighting that led to the 1980 military coup.

They are all likely to be proved wrong. Turkey's strength is an extraordinary ability to muddle through. This is also its great weakness because it has allowed the ruling elite to prolong irresponsible policies that do great damage to the people and the country's future. Turkey's friends must hope that the next prime minister will have the vision to steer the country away from the rocks.

■ The economy

The tightrope walker's next trick

Domestic debt is the most urgent problem. Already, inflation is running at 81% a year

Turks take a perverse pride in their mastery of economic tightrope walking. The country almost toppled over in 1994, when government overspending led to a balance of payments crisis and Turkey's worst recession in recent history. But the economy bounced back within six months, posting 8 per cent growth in 1995.

Although the government promised tough policies in 1994 to avoid another brush with doom, it pushed through few meaningful reforms. Two years on, it is again defying the laws of economics by pursuing unsustainable policies.

Some analysts fear that without corrective measures – which depend on increasingly uncertain political factors – it is only a matter of time before Turkey must choose between hyperinflation or a government default on its bulging domestic currency debts. A senior US banker in Istanbul says: "Turkey is reaching the brink. It needs to decide whether to be a basket case or move on."

The domestic debt is the government's most urgent problem. Although the debts are relatively small – the portion held by the public was equivalent to $23.53bn, or 14 per cent of GDP at the end of 1995 – but they are becoming increasingly unmanageable.

Maturities have shortened to little more than 180 days and real interest rates fluctuate between 20-50 per cent a year as financial markets demand higher and higher risk premiums. As the government's budget deficit grows, so do the risk premiums, further inflating the deficit and the debt.

The debt grew by nearly a quarter in dollar terms in the first four months of the year. This year's deficit could easily exceed $12bn, about 7 per cent of (officially recorded) GDP, against $8.6bn in 1995.

Few economists expect Turkey to have any trouble servicing its $73.78bn foreign debt. Indeed, international lenders take a sanguine view of Turkey, charging a relatively low premium of 2 percentage points over international benchmarks for its latest $500m three-year Eurodollar loan.

However, there may be limits to the international market's appetite for financing the treasury. Although Turkey borrowed over $1bn overseas in the first half of this year, this was still less than its debt service bill for the period. Standard & Poor's, the Wall Street rating agency, says Turkey is the second weakest of the 58 countries it covers, losing only to Venezuela. S&P rates Turkey's long term at a below investment grade B+.

The government's deficit could soon be so large, and interest rates so high, that it cannot be financed locally or overseas. Servicing the domestic debt already absorbs two-thirds of tax revenues and half the budget. With political chaos in Ankara, the public sector borrowing requirement's growth shows no sign of abating.

Ministers will soon have to choose between default or accelerating monetisation of the debt, risking hyperinflation. Inflation is already running at 81 per cent a year. The market senses this, charging premiums reserved for the very highest risks.

Mr Volkan Sari, market strategist at Global Securities, an Istanbul brokerage, says "the markets are very, very nervous. [Annualised] yields on treasury bills have gone to 135 per cent from 115 per cent one week ago. There is going to be a crisis in the autumn, possibly with hyperinflation and a loss of control over the currency."

However, some foreign bankers believe the treasury could impose a unilateral debt restructuring, swapping its high-yielding, short-term paper with long-dated, low interest bonds. This would cause considerable short-term dislocation, but experience in Latin America has shown that markets can quickly absorb properly executed defaults as long as they proceed thorough economic reform.

But Mr Rüşdü Saraçoğlu, minister of state for economics, said in April: "Debt consolidation or devaluation are not on the government agenda. In free market economies the state cannot change the rules or conditions about debts."

Political upheaval now means that even a minimum of economic reforms cannot be carried out this summer to head off a crisis in the autumn, when inflation traditionally increases and hard currency inflows decline. Privatisation, arguably the quickest and easiest way of regaining credibility looks impossible.

The absence of stable government, let alone one able to produce a coherent economic policy, makes support from the International Monetary Fund unlikely. Turkey's last SDR610m standby programme unravelled in September last year when Mrs Tansu Çiller, then prime minister, called elections.

Yet optimists believe the treasury and central bank could steer markets as skilfully as they did at the start of the year, when yields rose to 250.9 per cent after elections in which the Islamist Refah party took the most votes and almost succeeded in forming a coalition. Analysts point out that the central bank has liquid reserves of $9bn-$10bn available to stabilise markets.

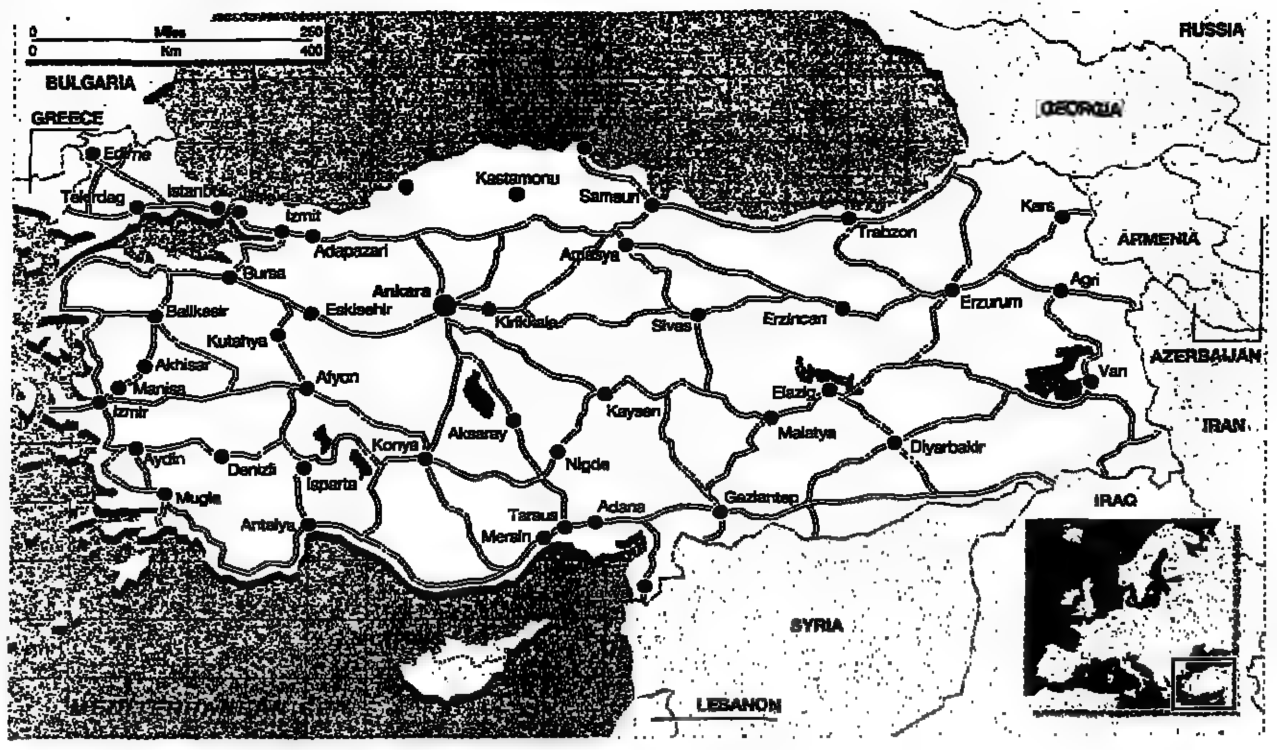
Looking further into the future, optimists could also argue that hyperinflation, or at least a severe financial crisis, may finally force Turkey's populist politicians to adopt more responsible policies. It is unlikely that markets would resuming lending at tolerable rates unless Ankara takes credible deficit-cutting moves such as privatisation and social security reforms, preferably in the framework of a broader market-oriented restructuring of the economy. This would have to include privatisation of utilities and infrastructure, reform of the financial system, a broader but simpler tax system to combat evasion, and deregulation.

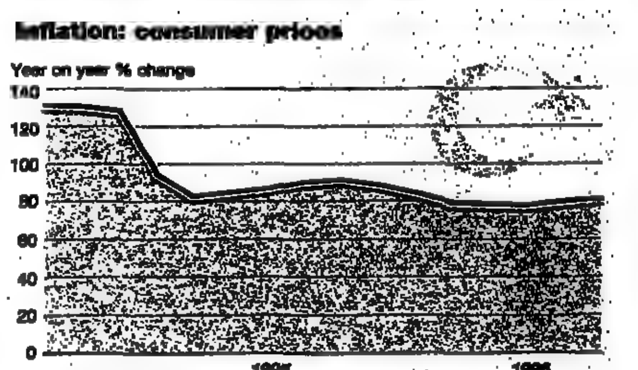
It is the private sector, with its generally well-managed companies with access to world financial and export markets that keeps Turkey moving. Mr Tim Bright, of Nicholson International, a recruitment company, says: "We are as busy as we have been for a while, with business coming in and companies here looking to expand." He says the recruitment market for top executives is often a good indicator of the health of the private sector.

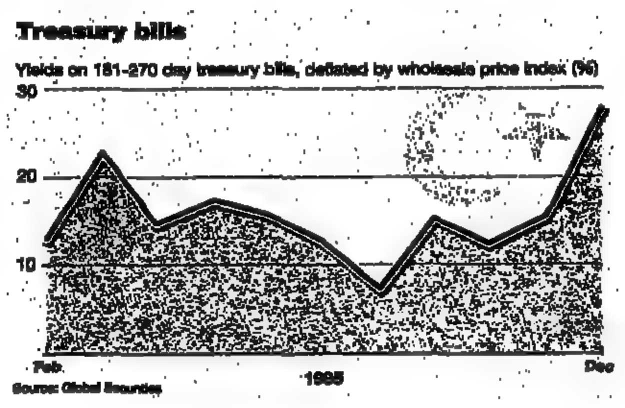
The huge unrecorded economy – widely believed to be as large as the official one – also helps explain why Turkey has managed to stagger on. Last year's exports were probably far higher than the officially recorded $21.98bn. Anecdotal evidence suggests investment is also understated.

Yet the burden of public sector inefficiency, with its high taxes, regulations and decaying infrastructure, is considerable. Companies pay more for electricity than their international competitors, political instability discourages investment, few companies plan more than 60 days in advance.

The large underground economy, far from being a source of pride – Turks say it demonstrates their adaptability and dynamism – merely shows that businesses cannot function normally in the highly regulated formal system. The underground economy also adds to the government's budget deficit by evading taxes and not paying for public services such as electricity.







KEY FACTS

Area	769,360 sq km
Population	62.2 million[1]
Head of state	Suleyman Demirel
Currency	Turkish Lire
Average exchange rate	1995 $1=TL 45,845
	1996 $1=TL 68,008[2]

ECONOMY	1995	1996[3]
Total GDP ($bn)	176.5	185.3
Real GDP growth (%)	8.1	4.3
GDP per capita ($)	2,871	2,928
Components of GDP (1995, %)		
Private Consumption	69.0	N/A
Total Investment	28.1	N/A
Government Consumption	7.6	N/A
Exports	22.1	N/A
Imports	-26.8	N/A
Consumer prices[4](% chng pa)	78.9	78.2
Ind. production (% chng pa)	12.1	6.0
Unemployment[5](% of lab force)	7.8	7.7
Reserves minus gold ($bn)[4]	12.4	N/A
Stock mkt indx (% chng pa)[6]	-6.68	29.93[2]
Public sector deficit (% of GDP)	6.5	7.5
Money supply M2 (% chng pa)	101.7	85.5
External debt (% of GDP)	41.4	41.9
External debt per head ($)	1,190	1,226
Current account balance ($bn)	-2.34	-3.98
Merchandise Exports ($bn)	21.97	24.17
Merchandise Imports ($bn)	-35.19	-39.90
Trade balance ($bn)	-13.22	-15.73
Main trading partners (1994, %)[7]	Exports	Imports
Germany	21.7	15.7
US	8.4	10.4
Italy	5.7	8.6
UK	4.9	5.1
France	4.7	6.3
EU	45.6	44.2

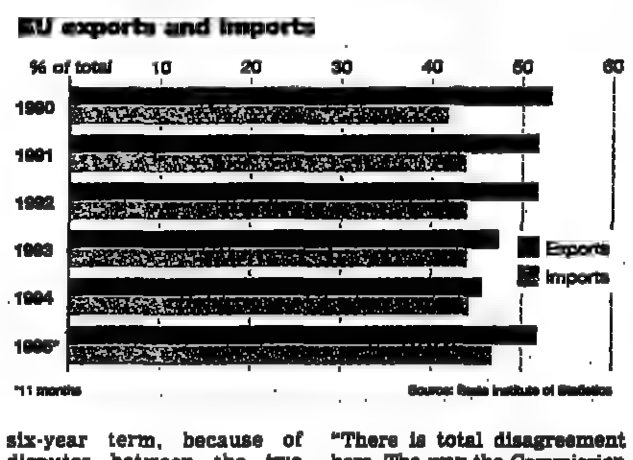
(1)1995 mid-year estimate. (2)Year to date. (3)Estimate unless otherwise stated. (4)End period. (5)Recorded. (6)$ terms. (7)Share of world trade

Sources: Economist Intelligence Unit, Datastream, IMF

■ The customs union

A start in the right direction

Trade with the European Union is flowing smoothly, but its volume remains fairly low



Many Turks complain that the customs union between Turkey and the European Union, which came into force on January 1 has had no effect. Imported European goods from cheese to cars are as expensive as ever.

European Commission officials tell another story. Although it is too early to assess trade and investment flows, they say increased European competition, or at least the threat of it, is already having some positive effect. For instance, the price of consumer durables fell sharply in real terms in the first quarter. Foreign investment, mainly by Europe-based companies, rose to $340m in January alone after a record inflow in 1995. Teething problems have nearly all disappeared and trade is flowing smoothly between the two sides.

Turkey still needs to finish harmonising its laws with the EU's body of law and set up some enforcement mechanisms.

For instance, Turkey has passed EU-compatible anti-trust laws but has not yet set up an independent competition board to enforce the law. The government has not chosen the board's 11 members, appointed for a six-year term, because of disputes between the two coalition partners.

For months Turkey delayed signing a steel agreement which required Brussels to scrap a 4-8 per cent duty it levied on Turkish exports to the EU, simply because Ankara could not decide who to send to the signing ceremony. Some European exporters complain of excessive delays by over-zealous customs officials. One EU-based company with a factory in Turkey complained it was still being made to pay import duties on components from Germany months after the customs union began.

Turkey and the EU cannot agree on whether second-hand machinery, particularly cars, can be exported to Turkey. Ankara (supported by the mainly European-owned car industry) refuses to allow old cars in. The Commission demurs. An EU official says: "There is total disagreement here. The way the Commission sees it and the way the Turks see it are completely different."

However, none of these problems is likely to destabilise the customs union. With time, and assuming a minimum of political stability and economic reform in Turkey, investment flows should increase substantially.

Mr Cem Duna, the diplomat who led Turkey's customs union negotiations and is now a consultant, says: "There is tremendous interest in Turkey, but it is inactive because of Turkey's political crisis." He also criticises European investors who "underestimate Turkey. They are oblivious to the fact that the economy of Istanbul produces more than Hungary."

Still, Turkey has attracted Japanese and South Korean car investments. Toyota already has a factory near Istanbul that is cutting away at the quasi-duopoly of Fiat and Renault which have long-established plants in Turkey.

Honda, Mazda and Hyundai are in the process of setting up assembly lines too. They are producing mainly for the domestic market but once their local content meets EU norms, their cars can be exported to the EU duty-free.

Turkey's low wage economy is also starting to attract investment as companies relocate capacity in middle-to-low technology products such as textiles and clothing or consumer goods and cars. Yet with EU inward investment at less than $1bn a year, there is plenty of room for improvement.

The head office of the Sekerbank in Ankara

Terry Kirk

PROFILE Gazi Erçel, governor of the central bank

Independence must not be taken too far

Gazi Erçel, Turkey's fifth central bank governor in three years, is keenly aware of the limitations of his job.

Mr Erçel was appointed in April as the compromise candidate of the ruling coalition's warring partners. All but one of his four predecessors were sacked by Mrs Tansu Çiller, the prime minister from mid-1993 to earlier this year. His immediate predecessor quit to become an MP in her True Path party and enter the cabinet.

Although on paper the central bank enjoys full autonomy, Mr Erçel says frankly: "In a democracy, governments are responsible for results. Decision-making processes should come from the cabinet. We [at the central bank] are high-ranking consultants. We can give high-level advice, but of course the decisions will be taken by the government. It designs the macroeconomic framework."

However, this does not mean the nominally independent central bank is just another arm of the government. It should strike a balance between pursuing sound policies and helping the government meet its economic targets. Mr Erçel says: "In conducting monetary policy, the central bank is independent. It does not mean that the central bank can do anything, it must implement the best policy."

> Ministerial squabbling has delayed the monetary targets

Mr Erçel, a good-humoured, expansive man has worked in key posts at home and abroad. After serving in the treasury, the central bank and the IMF, he joined the private sector and became president of Tütünbank, a medium-sized commercial bank.

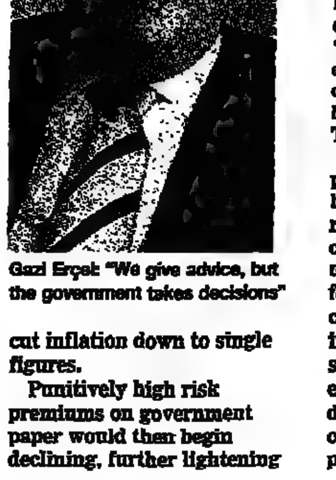
Turkey's principal priority is to tame its chronic high inflation, now running at 81 per cent a year, he says. "In 2000 there will be first, second, third, and fourth league countries in the world. If we do not reduce inflation to single digits, we cannot be a player in the first and I doubt in the second league. I do not think Turkey deserves to be in the third league. We have to do more to cut inflation not the 'blah blah' type of approach. There is no other way."

He cautiously stresses the importance of working with the government to establish a credible medium-term macroeconomic programme which "decisively attacks inflation's source. The mechanism is very basic: reduce the PSBR, increase revenues, privatise."

Each quarter he plans to announce the coming quarter's monetary targets: "The market needs some stability, some future achievable three-month, six-month, one-year targets. We have to convince the market that we are firm in implementing these policies. If we are able to achieve our [initial] targets, I am convinced the market will say we are firm, decisive, credible people and immediately react positively."

However, squabbling between the government's rival economic ministers has forced him to delay the announcement of his monetary targets.

He remains a firm believer in the psychology of the market: "Expectations are the key issue. It is necessary to break the expectations of the man in the street and the private sector." Once the government has regained some credibility it can start slowly but surely to lower inflation to 20 per cent in three years and then steadily cut inflation down to single figures.



Gazi Erçel: "We give advice, but the government takes decisions"

Punitively high risk premiums on government paper would then begin declining, further lightening the treasury's interest bill and setting off a virtuous cycle of disinflation. However, market analysts are not convinced. Most expect both inflation and interest rates to move up sharply in the autumn.

Mr Erçel is particularly concerned at the gulf opening up between rich and poor, between those operating in hard currency and those exposed to heavy inflation. "About 50-60 per cent of the economy is indexed to foreign currency, mainly the D-mark, but the other half [holds] Turkish lira," he says.

Ominously, many of his predecessors at the central bank began with similarly rational and modest objectives. All failed to stand up to the politicians' hunger for revenue – financed by the central bank through inflation. Many in the market suspect that Mr Erçel too may either bend to the politicians' demands or be forced out of office, just like many of his predecessors.

هكذا من الاصل

■ Politics

Fight to the finish on the right

Both want a pro-western, free market and secular Turkey. But they hate each other

Exactly three months ago today, Mr Mesut Yilmaz, the prime minister, and his bitter political rival and predecessor, Mrs Tansu Çiller, signed a protocol detailing a complex power-sharing formula. The two agreed to form a minority coalition government and to rotate the premiership between them, with Mr Yilmaz starting first. The ceremony was treated as an state occasion and broadcast live on national television as the two leaders passed leather-bound volumes containing the agreement to each other.

The elaborate ceremony rekindled hopes that the divided centre-right would soon be united, ready to push through long-delayed reforms and above all hold the line against the Islamist Refah party now the largest in parliament.

It was not to be. The ink on the protocol had barely dried before the two leaders had resumed their bitter fight to the finish to control the centre-right heartland of Turkish politics. Although few analysts expected the coalition to last the year, very few predicted that it might not reach the 100-day mark.

Today, parliament begins a no-confidence debate that is likely to bring down the government before the week is out. The breakdown between the two leaders appears irreversible. Last week Mrs Çiller said Mr Yilmaz should resign or "I will support the vote of no-confidence". He retorted that "anyone wanting early elections should bring this to parliament and we will support it."

What happens next? Mr Mehmet Ali Birand, a respected political columnist in the newspaper Sabah, commented: "It looks like the government will end [this week] and bargaining to form a coalition will start. If nothing comes out of it, the president will form a government to take the country to elections. This could happen quickly but could also continue until the autumn. We will have a summer full of unrest and rumours."

It is easy to become distracted by the messy Yilmaz-Çiller divorce. The real issues have not changed. The first concerns the centre: will the Motherland party of Mr Yilmaz and Mrs Çiller's True Path party ever unite and if so how and under whose leadership?

Motherland and Refah's corruption allegations against Mrs Çiller have further tarnished her reputation. Mr Yilmaz's claim that she misappropriated $6.5m from a prime ministerial discretionary fund before leaving office in March was probably the most damning.

Her grip on the party remains strong but mutterings from the normally subservient rank and file can be heard. Mr Yilmaz has probably emerged from the battle stronger. Although his reputation for dithering has grown, he at least is considered to be honest.

Polls indicate that few Turks care whether Mrs Çiller or Mr Yilmaz wins the battle for the centre. Yesterday's local by-elections held in 40 districts and towns, may not represent national opinion but they could decisively affect the struggle between Mrs Çiller and Mr Yilmaz.

Uniting the two antagonistic parties will not be easy. Mr Korkut Ozal, a leading Motherland MP who openly favours an alliance with Refah, says "I doubt it would work. One side would deprive the other of posts." The main purpose of Turkish parties is to further the personal, business and political ambitions of their members and backers. Policy issues comes second, which explains why Motherland and True Path are so bitterly divided, even though they share the same pro-western, pro-business, secular values.

The army, those stern guardians of Atatürk's heritage, remains as politically powerful as ever. The generals drove True Path and Motherland together to block Refah's advance. They could redouble their efforts to forge a united conservative party. Mr Sedat Aloğlu, a senior True Path MP, says unity is possible: "There is no other formula in parliament. We will not be the party that gives up."

The second issue regards Refah. Its support grows as backing for mainstream parties recedes. It is the only party offering an alternative to the confusion in Ankara, with its anti-corruption message, its claim to be the voice of the dispossessed and its "Just Order" platform of populist slogans.

Pollsters say only one quarter of those voting for Refah share its vision of replacing the 73-year secular state with an Islamic republic. Most are turning to Refah out of protest at the corruption and incompetence of established parties. Yet Refah's disciplined party workers, its gradual infiltration of government bureaucracy and growing control over the education system all indicate that the party is planning strategically, focusing beyond the immediate political crisis.

Mr Necmettin Erbakan, Refah's leader, did promise to respect the secular order and Turkey's alliances with the west during long but ultimately fruitless coalition talks with Mr Yilmaz in January and February. Yet doubts over his sincerity – and the strength of Refah's pragmatists over its hardliners – immediately grew after a series of meetings at the Iranian embassy, where he praised the Ayatollahs' revolution.

Refah remains an unknown quantity. It has run Istanbul and Ankara, Turkey's largest city and capital respectively, since 1994 and has not allowed dogma to interfere with efficient administration. But observers worry about Refah taking power nationally. Would the army allow it? Could there be disturbances? Would Refah moderate or become more extreme?

The main causes of Refah's success are Turkey's present economic mess, with inflation of 80 per cent, heavy under- and unemployment and low wages, as well as disgust at the establishment's corruption. Refah and extremist parties of the left and right stand to benefit the most from the secular majority's inability to form a viable government and control the economy.

A strong government could rapidly revitalise the economy with market-oriented reforms, undermining Refah's constituency and rebuilding the secularist power base. Yet each passing day of squabbling between True Path and Motherland makes this less and less probable.


Tansu Çiller, leader of the True Path party


Mesut Yilmaz: fighting to remain prime minister

Chronology of a divorce

December 25 1995: Election results announced. Refah emerges as largest party, but fails to form a coalition. Motherland comes close to an alliance with Refah, but army forces it to share power with True Path.
March 3 1996: Mr Yilmaz and Mrs Çiller sign coalition protocol detailing their power-sharing formula under which they will rotate the premiership.
March 12: Government wins parliamentary vote of confidence only thanks to abstention of a centre left opposition party.
March 13: First cabinet meeting. True Path and Motherland begin to veto each other's candidates for top civil service appointments.
April 9: The two parties agree on appointment of 49 provincial governors and security chiefs. Mr Yilmaz admits he came close to resigning: "I told Mrs Çiller it would be impossible for me to continue in this government."
April 24: Motherland MPs vote with Refah to set up a parliamentary committee to investigate corruption allegations against Mrs Çiller.
April 25: True Path ministers boycott cabinet.
May 8: Hürriyet, an anti-Çiller newspaper, claims she misappropriated $6.5m from a discretionary fund.
May 9: Motherland MPs side with Refah to form a second parliamentary committee to investigate Mrs Çiller.
May 14: The constitutional court declares the government's confidence vote invalid.
May 24: Mrs Çiller announces she no longer supports the government, but will not withdraw her ministers until formation of a new cabinet.
May 29: Parliament decides on June 3 no-confidence debate.
June 2: Local elections in 40 towns and districts.

■ Foreign policy

Reverses on all sides

There has been a shift on the Middle East, but the main problem lies in Europe

In May, President Süleyman Demirel escaped assassination by a deranged fundamentalist protesting at Turkey's growing relationship with Israel. If nothing else, the incident drew attention to a rapid change in Turkish attitudes to the Middle East.

The Ottoman Turks ruled the region for four centuries, but their republican successors all but ignored it, concentrating on developing ties with Europe. Turkey's Middle East policy consisted mainly of deflecting Arab protests over its exploitation of the Tigris and Euphrates or berating Syria for supporting the Kurdistan Workers' party (PKK). Ankara was only a bit player in the Middle East peace process.

In February, to the surprise of many, Turkey and Israel signed a military co-operation agreement. Until the 1993 Oslo peace accords between Israel and the PLO, Turkey had observed Moslem solidarity by keeping the Jewish state at arm's length.

Mr Alan Makovksy of the Washington Institute for Near East Policy, commented that closer ties with Israel "reflects Turkey's disappointment with Arab world attitudes toward Cyprus, the PKK and Tigris-Euphrates water." Turkey and Israel have much in common. They are US allies; they are democracies with relatively large, market-oriented economies; they fear resurgent fundamentalist Islam; they are isolated in the Middle East. Western diplomats say Turkey has concluded the US and Israel will dominate the region and accordingly has thrown in its lot with them.

However, there are limits to the relationship. Turkey wishes Israel and the US would force Syria to abandon the PKK, which receives considerable backing from Damascus as a pawn in its water dispute with Turkey. But Israel has shown little enthusiasm for linking the PKK to negotiations with Syria.

Yet Mr Shimon Peres, Israel's prime minister, has said Turkey could supply water to Syria to replace Golan water resources that Israel wants to control after withdrawal. Turkey immediately rejected this and Israel quietly dropped the matter for the time being.

And as Mr Demirel has found, Turkish domestic opinion has proved hostile to Israel, and not just among Islamists. Mr Cengiz Çandar, a columnist in the mainstream newspaper Sabah, described the relationship as a "shameful collaboration". He said: "If Turkey is a regional power it is only natural for it to have good relations with Israel. What is not natural is that Turkey has been reduced to serving as a spare tyre for Israel."


Süleyman Demirel: attacked by a deranged fundamentalist

Prominence in the Middle East compensates for reverses in Central Asia, which Turkey once imagined as its own preserve because it shares the same language, culture and Sunni Moslem religion with these former Soviet republics.

Turkey cannot provide the aid or political support Central Asian republics expect. Political squabbling and a succession of foreign ministers in Ankara – seven in two years – prevented formulation of a coherent policy, which has also diminished Turkey's value as a western proxy in the region.

Instead, its rival Iran has focused on trade and infrastructure instead of exporting revolution. In May it opened a railway connecting the Persian Gulf port of Bander Abbas to Central Asia. Russia, another adversary, is re-establishing Soviet-era oil pipeline networks. Turkey fears for its pet project, a $2.3bn pipeline to export Azerbaijan's oil to Ceyhan on the Mediterranean. All three countries believe controlling infrastructure will bring political influence, as well as lucrative contracts .

Still, Turkey's biggest problem remains its relationship with Europe. Most Turks consider themselves Europeans but most Europeans view Turkey as a backward, unstable country notorious for human rights violations. Although the European Union and Turkey established a customs union on January 1 to bolster Turkish political stability and to increase trade, relations have deteriorated instead of improving.

A squabble in January with Greece, Turkey's traditional foe, over two rocky outcrops in the Aegean nearly escalated into war. Greece continues to block EU aid to Turkey, rejecting an offer by Mr Mesut Yilmaz, prime minister, of unconditional talks. Athens demands international arbitration to settle their disputes.

Brussels has rejected Turkish requests for EU membership. Now Turkey must watch in humiliation as Malta and Cyprus then eastern European countries begin accession talks.

Turkey is looking increasingly to the US. However, Washington's attitude differs little from Europe's. Political confusion in Ankara is undermining Turkey's international credibility. Turkey needs political and economic reform. The US and Europe are ready to help diplomatically and financially, fearing an unstable Turkey, perhaps controlled by an Islamist government, would destabilise the Middle East, the Balkans, Eastern Mediterranean and Central Asia.

■ Civil rights

Kurds still face hard line

The country's poor record is undermining its relations with the US and Europe

On March 21, Mr Mesut Yilmaz, newly installed as prime minister, travelled to the small eastern town of Iğdir, where aides said he would announce a new, conciliatory policy towards Turkey's Kurdish minority.

March 21 is Nevruz, the traditional Kurdish new year, traditionally marked by violent anti-government protests. This year's celebrations went off peacefully, but Mr Yilmaz never made his expected announcement.

Officials keep promising a package legalising broadcasts and education in Kurdish as well as decentralising government and increasing subsidies. This would meet Kurds' main grievances and could even bring a gradual end to the rebellion led by the Kurdistan Workers' party (PKK). The PKK announced a unilateral ceasefire in December and asked for talks. Instead of negotiations, the army launched a spring offensive against them.

Over 20,000 civilians, guerrillas and soldiers have died since fighting began in 1984. The army has burned thousands of villages in a scorched earth strategy. Human rights campaigners say that the battle against the uprising is the root cause of Turkey's serious violations record. Mr Yavuz Onem, president of the Human Rights Foundation of Turkey, says: "The majority of killings, disappearances and torture are against pro-Kurdish personalities. If you speak out, it is enough to come under pressure of the state."

Draconian anti-terrorism laws are habitually used to punish even non-violent expressions of Kurdish nationalism. Mr Onem says the military retain great political influence: "The civilian population cannot make any positive proposals."

The war in the south-east and Turkey's human rights record are undermining its relations with the US and the European Union where campaigners have cut aid and arms transfers.

Human rights violations continue despite last year's heavy pressure from the European parliament, which had linked progress on human rights to ratification of a customs union linking Turkey and the EU. Turkey even amended its constitution and changed its anti-terrorism legislation to comply.

But prosecutions under the amended anti-terrorism law continue. Prosecutors are also bringing cases under an array of other laws. There are 154 statutes concerning freedom of expression: it is an offence to criticise the laws of Turkey, to insult Kemal Ataturk, or to provoke hatred between groups of different race, religion, region or social class.

Mr Onem says 6,000 political trials are currently under way, nearly half of them under the anti-terrorism law. The human rights foundation itself is under investigation by the government which says its torture treatment centres function illegally. Campaigners are also concerned at non-political human rights violations. Torture of suspected criminals, even of small children, in police stations is common.

Yet paradoxically, Turkey does have a strong civil society. There are nearly 2,000 independent radio and TV stations catering for almost every shade of opinion and taste. The press is free and indulges in political muckraking that would shock many Europeans. The electoral process is reasonably fair.

Human rights, the Kurdish issue and extreme left-wing opinion are probably the only issues that remain strictly taboo in Turkey. This does not surprise pollsters, who find almost unquestioning support for the armed forces and their battle against terrorism among ordinary people.


A Kurdish refugee camp at Diyarbakir Select Photo Agency

■ Business

Prosperity – despite the state

Though dynamic, the private sector must contend with a lethargic bureaucracy

Turkish business leaders like to contrast the political chaos in Ankara and disarray in the public sector with the private sector's dynamism. Like Italy, they say, Turkey may be plagued by political instability but at least private business continues to forge ahead.

Mr Feyyaz Berker, president of Tekfen Holding, a diversified construction company, says: "The private sector in general is affected by government decisions on economic affairs, but usually the dynamism of the private sector is greater. We are getting some shock treatment but it does not affect business as much as before."

Turkish business rapidly recovered from the short but severe recession of 1994 when the country teetered on the edge of a slump after financial markets collapsed.

Last year companies exported heavily, with 1995 exports rising to a record \$21.98bn from \$18.39bn the year before. They embarked on an investment boom, which is still continuing. Textiles and clothing, Turkey's largest and probably most competitive industries, have alone invested about \$8bn since the beginning of 1995. Foreign investment has also picked up, with a 50 per cent increase last year to \$1.25bn, a record.

Companies invested to prepare for an expected competitive onslaught with the Turkey-European Union customs union. The government also helped boost domestic demand by loosening fiscal and monetary policy in the last quarter of the year as elections approached.

The outlook for business this year is probably for continued recovery, albeit at a slower pace than last year, partly because of a downturn in Germany, Turkey's biggest market in Europe. Economists are forecasting 80 per cent inflation, a drop in interest rates during the summer and economic growth of 4-4.5 per cent, which is low by Turkish standards.

So executives may be forgiven for saying they can prosper in spite of the state. Turkish companies are internationally renowned for their resilience and hair trigger reactions, enabling them to survive great adversity.

Faced with impending power shortages, companies are installing their own generators. The treasury has squeezed private borrowers out of local capital markets, so they go overseas for loans, where real interest rates are one-sixth of Turkish rates. Mr Adil Konukoğlu, finance director of Sanko, a big family-owned textile company, says: "If interest rates in Turkey are so high, how can you take a risk of borrowing and then go and open new factories?" He finances expansion from retained earnings wherever possible and borrows overseas when necessary.

However, business confidence may be overplayed. There are few companies that are totally independent of the lethargic government bureaucracy. Mr Berker says: "Our construction company depends on government decisions which unfortunately do not move fast."

Even for those with little direct contact with the government, crumbling infrastructure and high interest rates add to operating costs, which they pass on to consumers as higher prices, which depress sales.

Political uncertainty and inflation discourage investment. Few businesses can plan more than 120 days in advance. Some companies say their investment plans are on hold again after the latest bout of feuding between the coalition's two partners threatened to bring down the government.

> Foreign investment has picked up, with a 50 per cent increase last year to \$1.25bn, a record

The government interferes in the business world in a more insidious way. Many industrial companies now earn almost as much from interest income on high-yielding government paper as they do from operations. At Koç Holding, Turkey's leading industrial group, financial income contributed about half of 1995 pretax income of \$98m. Some, like Bati Çimento AS, a cement company, would have moved into the red last year were it not for the \$7.8m it earned from government securities.

While these and many other companies should be grateful for the treasury's largesse, reliance on financial income does expose corporate balance sheets to political and default risk. A blow to the financial system would hit manufacturing industry hard, possibly by freezing assets and eliminating an important source of profits.

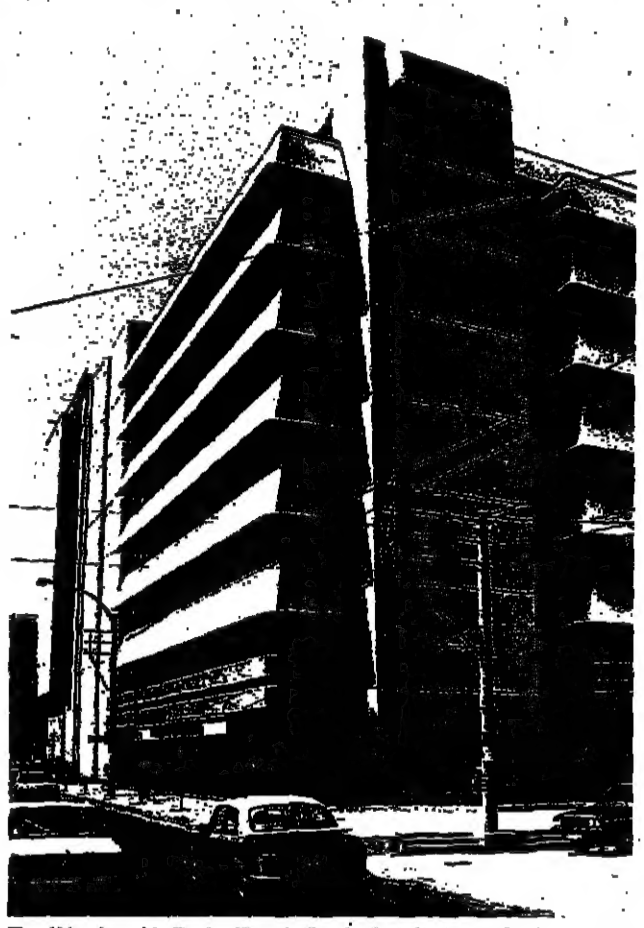
Not everyone is blinded by the rising short-term hazards of doing business in Turkey. Larger companies with deep pockets must invest to keep up with international competition both in their export and domestic markets.

Multinational company investors, whose exposure to Turkey in most cases is a small part of their international operations still see considerable potential. Mr Chris Howell, a partner at Coopers & Lybrand's Istanbul office, says: "If you are a consumer business with [a Turkish market of] 60m people, you are here for the long term."

Turkey has a large, young population that is growing fast. A large middle class has high living standards, rising incomes and a desire for imported US, European and Japanese products. Markets for many consumer products are still far from saturation, offering big growth prospects in addition to underlying economic growth.

> Markets for consumer products are far from saturation, offering big growth prospects

Chronic economic instability may be fine for honing survival skills and practising rapid decision-making, but inflation, bureaucratic interference and political instability are definitely not good for business. Turkey's mediocre economic performance over the years has prevented all but a few companies from developing into world class players.



The Akbank and Is Bank offices in Cumhuriyet Boulevard, Izmir *Terry Kirk*

■ Financial system

Banks keep fingers crossed

Most of their profits are earned by lending to the Treasury. But what if it defaults?

Private Turkish banks earn most of their profits the easy way: they lend to the practically bankrupt treasury at real interest rates that fluctuate between 20-50 per cent a year. Thanks in great part to the public purse's hunger for funds, banks made a strong recovery last year from the trauma of 1994, when government economic mismanagement brought the financial system within an ace of collapse.

Pretax profits at the five largest private banks rose by 92 per cent in dollar terms to \$1.54bn last year. Akbank, majority-owned by the Sabanci industrial conglomerate, and the country's largest bank, reported a \$451.3m profit before tax.

Mr Erol Sabanci, head of Akbank, says: "We are making money from treasury bonds, but the profits are exaggerated because the cost of funds is high. [Lending] to our clients is our core business, but if we cannot get money from our core business, we will allocate funds to bonds."

According to Global Securities, an Istanbul brokerage, Akbank increased its interest income on loans by 17 per cent, while income from securities (understood to be mainly treasury bills) almost tripled last year. Net income at Demirbank, the smallest of the big five, trebled in real terms, due principally to its securities portfolio, which rose 292 per cent in real terms.

Although treasury borrowing is unsustainable at its present rate, few bankers believe it will default. A Turkish banker scoffs at the very idea that the treasury might not pay: "This is the most dangerous thing a government can do. It would mean a great loss of confidence."

Foreign bankers are less certain as political confusion deepens and some local banks have shed government debt. Garanti Bankasi, which has traditionally relied less on trading, is focusing even more on lending than before. Demirbank is lending more to companies and consumers as it builds up a retail network.

Although the crash of 1994 claimed only three fringe banks, the survivors have tightened controls and beefed up their balance sheets. Regulators have limited their ability to fund domestic speculation with overseas borrowing. Yet analysts are paying much closer attention to the financial system's health. The most solid private Turkish banks are those:

- ■ with an extensive domestic network allowing them to fund cheaply in local currency, such as Akbank, which is traditionally one of Turkey's most liquid banks;
- ■ with strong international connections such as Garanti, listed in New York and London;
- ■ which are part of a powerful conglomerate such as Akbank and Garanti, or have good political connections such as Interbank, recently acquired by Mr Cavit Çağlar, a textile magnate and True Path MP;
- ■ which are well-capitalised, conservative banks with risk-averse strategies such as TEB, a bank that funds most of its activities through equity and has avoided high-yielding treasury debt.

Though TEB and Garanti forgo profits by reducing exposure to the treasury, their executives claim that forging ties with clients will pay off in the future, when profits on government securities decline and competition for corporate deals intensifies. Mr Akin Ongör, Garanti's president, says: "Banks are for customers. If not, we would just be a small house trading treasury bills. Lending is good business if you lend to the right people."

Garanti has just emerged from a re-engineering exercise, dividing itself into three basic divisions to handle corporate, commercial and consumer banking. It has decided to grow by acquisition, rather than organically. In 1994 it bought Bank Ekspres, a small bank on the brink of collapse. This year it paid \$145m for Osmanli Bankasi, Turkey's most venerable bank, in which Paribas was the largest shareholder.

However, finding the right people and companies to lend to is never easy, least of all in today's Turkey, where inflation and economic instability have reduced the ranks of reliable borrowers, with high interest rates further discouraging borrowing. This is reflected in banks' balance sheets where loan to asset ratios are generally low. Competition for good risks is fierce already, with international predators such as Citibank extending their franchises.

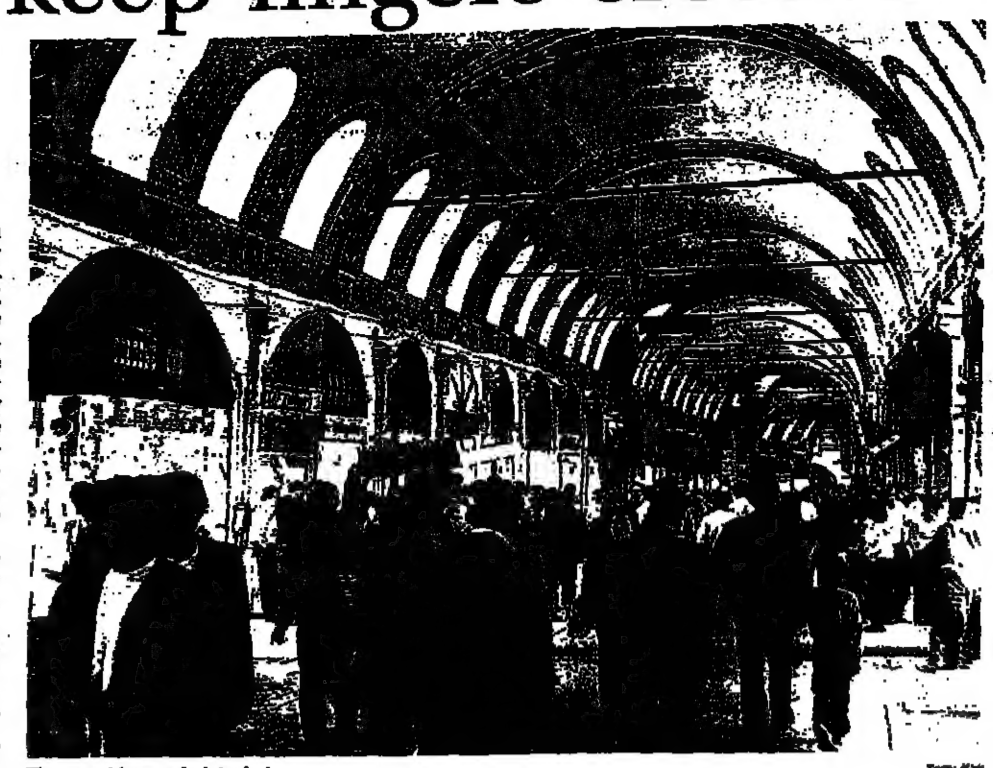
The crisis of 1994 prompted a rush to quality which continues to punish small, though not always poorly-managed banks, forcing them to pay higher interest to attract deposits. The bosses of bigger banks now want the government to relax its unlimited deposit guarantee scheme, introduced in 1994 to prevent a run on banks, arguing that it distorts the financial system.

They say this lets weaker banks attract funds with artificially high interest and use the money in high-risk deals knowing that the government's guarantee scheme will bail them out of trouble.

However, political pressure to retain the scheme is very strong. In any case, the big banks protest too much. Most depositors suspect government guarantee payments probably take a long time, possibly without full adjustment for inflation, and play it safe by keeping their money at top tier banks. Moreover, minor banks such as Derbank or Finansbank must pay about one-sixth more for short-term funds than the majors.

The huge state banks are the real culprits when it comes to distorting the industry. They control over half the financial system's assets, led by Ziraat Bankasi, the biggest bank in Turkey, and pay below market rates for funds. Yet they no longer act as banks in the conventional sense. They have become part of the treasury, their portfolios stuffed with government paper and non-performing loans to private and state companies.

Turkey's banking system will function efficiently only if these distortions are removed, treasury debt becomes more manageable and inflation is tamed. Reform would mean privatisation or closure of the state banks, so it would take time. According to one official, "the World Bank planned a financial reform package but was asked not to by the government because it was afraid it would publicise weakness of the [state-dominated] financial system and a banking crisis would become a self-fulfilling prophecy."



The grand bazaar in Istanbul *Terry Kirk*

Five biggest listed banks by market capitalisation
Pretax profit (\$m)

	1992	1993	1994	1995
Akbank	236.1	320.5	250.7	451.3
Isbankasi	159.0	279.9	226.6	398.3
Yapi Kredi	89.1	120.4	96.3	382.3
Garanti	174.4	235.3	189.7	210.4
Demir	24.8	64.9	41.2	98.0
Average	583.4	1,021.2	804.5	1,540.4

Source: Global Securities

■ The South-eastern Anatolia Project: by John Barham, recently in Gaziantep

Irrigation transforms area's prospects

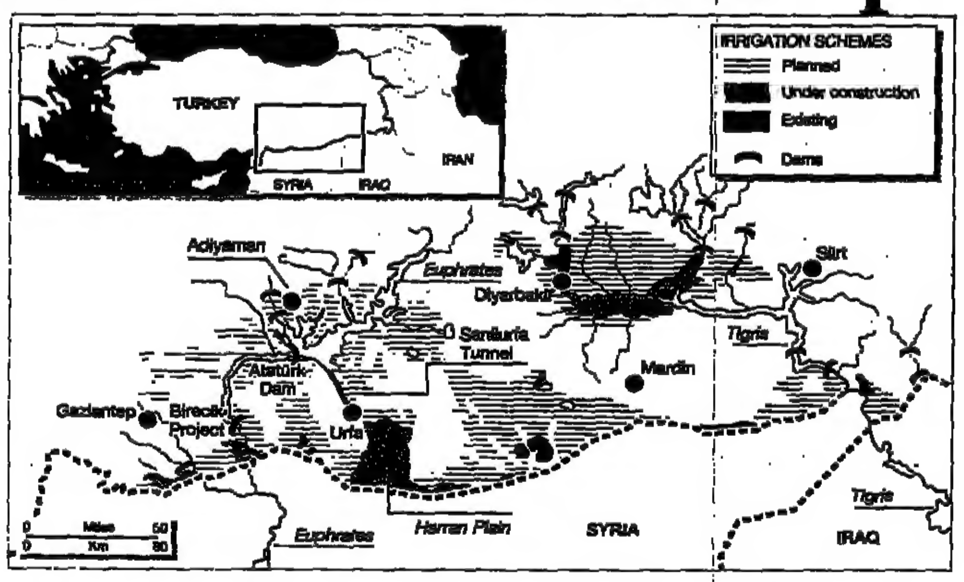
The south was poor. But now it is Turkey's fastest-growing region

The ancient peoples of the fertile crescent invented irrigation 5,000 years ago. But centuries after, their irrigation canals dried up and their brilliant civilisations crumbled, Mesopotamia was sunk in poverty and isolation

Now, irrigation is again transforming the region's prospects. Southern Turkey – one of the poorest parts of the country – is booming. Rapidly rising farm output from the Harran plain, legendary resting place of the disgraced Adam and Eve, has made the south Turkey's fastest-growing region.

Harran is the first area to receive massive irrigation as part of the government's South-eastern Anatolia Project (GAP), a \$32bn hydroelectric and irrigation scheme. An underground irrigation tunnel, the longest of its kind in the world, carries water from the huge Atatürk dam on the Euphrates river 26km away at a rate of 30 cubic metres a second.

The fertile, but once-arid, Harran plain is now covered with bright green fields. Unemployment is down sharply and migration to the big cities of western Turkey has slowed following the first harvest after irrigation was introduced across the Harran plain last year.



Cotton mills and textile factories in neighbouring towns are expanding to absorb the big increase in cotton output. Cotton is the farmers' crop of choice. They produced nearly 200,000 tonnes of cotton in 1995 – one quarter of Turkey's output – and GAP officials expect 80 per cent of farmers to plant cotton again this year.

Eventually, government planners intend to irrigate 1.7m hectares of land in the south-east – 40 times more than now. "The main aim is to make the region an agro-industrial export base," says Mr Erkan Alemdaroğlu, GAP's regional director. "What we are trying to do is create industrial jobs. Small farmers will become industrial workers." By 2005, according to GAP's master plan, the region will be producing nearly \$4bn-worth of agricultural products and \$4bn-worth of industrial goods, plus nearly another \$9bn in construction and services.

In the nearby industrial city of Gaziantep, banks say demand for loans by companies buying machinery or building new factories has doubled. Mr Kemal Yücetürk, manager of Garanti Bank, says: "Small enterprises have grown. They did not use credits before but now their money is not enough so they are borrowing more." International banks also report a surge in trade finance from Gaziantep as local textile and food companies import more machinery. Companies in the more developed west of Turkey are also investing in the area, where wages are lower and raw materials, particularly cotton, are abundant.

Despite GAP's impressive dimensions and the ambitions of its planners, it does have its problems.

Officials are struggling to organise and educate Harran's subsistence peasant farmers. Few have more than a vague notion of how to use irrigated land. In some cases, the government distributed only a few brochures to largely illiterate farmers. Government agronomists are poorly paid and rarely stay more than a year or two.

However, the farmers themselves are not listening. Mr Mustafa Demir, who farms a small plot on the Harran plain, says: "Technical advice is no good. We do not need it. It is much better when we listen to our hearts." Predictably, productivity is low. Pilot projects by Israeli experts produce nearly twice as much cotton per hectare with half the water that local farmers use.

Mr Alemdaroğlu says: "Everyone wants to grow cotton but water is still limited. If you grow cotton every year, the land becomes exhausted. Water is scarce and cotton consumes more water than other crops." According to GAP's technocrats, Harran's soil is ideally suited to growing wheat and barley. Only about one-tenth of the land should be planted with cotton.

Mr Halil Agar, an agricultural economist, says that GAP has organised about 100 visits to farms that suffer salinity because of excessive water use: "It is very important for farmers to see and touch the soil that is white and impossible to plant. Then they understand." However, lack of money and infighting between rival bureaucracies have undermined the effectiveness of the government programmes.

Moreover, water that runs off the plain into tributaries could become polluted with pesticides, fertilisers and salts and thus unsuitable for use further downstream. Damascus has already protested that the Euphrates water flowing into Syria is contaminated.

Turkey has shrugged off repeated demands by Syria and Iraq that it sign a treaty regulating the use of the Euphrates and Tigris. Until Turkey settles this dispute, GAP will remain a source of friction in one of the world's most turbulent regions.

The GAP area's feudal social structure is another problem. Powerful landowners, or Ağas, control much of the land, despite attempts at land reform. Few have much interest in modern farming techniques. Many farms are still worked by families of sharecroppers. The government believes market forces will solve the problem: wealthy landowners will invest in the industry, creating jobs for the landless, and rich peasants will buy up more land.

■ Urbanisation

Invasion of the cities

Rural migration is the country's main problem, since its big cities cannot cope

People born in Istanbul before 1960 can remember a small, somewhat shabby and run-down city where one could find the monuments and palaces of the Byzantines and the Ottomans. These are still there, but completely overshadowed by office blocks and flyovers choking with traffic.

Today, these people snort, the city is succumbing to new barbarian invaders who arrive at all hours of the day and night in buses from the forbidding Anatolian heartland to start a new life in Istanbul.

Peasant migrants who can barely read and may never have set foot outside their villages arrive in Istanbul, Turkey's biggest city and industrial capital, at a rate of about 400,000 a year. Nobody is sure what the city's real population is – estimates range from 8m to 12m – because the last census took place in 1990.

Even if Turkey's population rate is tapering off, rural migration remains a big problem. Migration is the basic problem facing Turkey's big cities. Istanbul is not alone – Ankara the capital, and Izmir, Turkey's third city – are all suffering the same phenomenon.

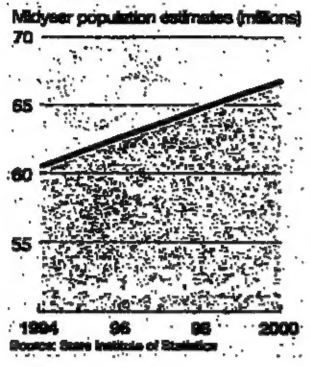
Mr Burhan Ozfatura, Izmir's mayor, says: "Izmir's population is growing at about 5 per cent a year and is about 3m now. All our problems, such as housing and infrastructure, are related to population growth." He has lobbied the central government to allow local administrations the right to issue residence documents to stem migration. His colleagues in Istanbul would also like to see similar measures to limit migration.

Controls would be unconstitutional, and probably would not work either. Mr Sunday Onur, a demographer at Ankara university, says that however grim life in the slums may be, "even the unemployed in cities are better off than people living in the country. They do marginal jobs, as car cleaners, *street sellers. Somehow they* survive."

Mismanagement, corruption and poor planning have only worsened conditions in Istanbul. In 1994, Istanbul voters became so fed up with the mainstream parties that they caused a political earthquake by electing Mr Tayyip Erdoğan, of the Islamist Refah party, as mayor.

Population growth rate

Midyear population estimates (millions)



Source: State Institute of Statistics

Pollsters add that powerful social and political forces working in all Turkey's big cities are driving Refah forward at a national level. Refah took the most votes in last December's elections and is now the biggest party in parliament. According to one pollster, "voting for Refah is not a political choice. It is a social phenomenon because of unemployment and low education, the hopelessness of people in the slums."

Refah decided to make Istanbul a showcase of efficiency and honesty to convince voters around Turkey that it could run the country equally well. Even sceptics in big business admit that Refah, at least by the low standards of their predecessors, is doing a good job. Mr Erdoğan could eventually take over as national party leader.

Refah has reduced water cuts, thanks to good rainfall as well as by stepping up investment. It has also improved the quality of air by increasing natural gas connections and banning lignite. The next challenge is Istanbul's traffic. Refah is spending $1bn to complete the first 30km of a metro system. The city is building more housing to provide slum dwellers with homes.

Slums, called *gecekondu* in Turkish, are a growing national problem as migrants by their thousands pour into areas that lack basic infrastructure and services and which can offer only substandard housing. In 1990, an estimated 8.8m Turks lived in *gecekondus*. Last year, one-third of the population, or 13m people, did so.

Jobs are scarce and poorly paid, schools and clinics are either too far away or too crowded. Many of the inhabitants are Kurds, fleeing poverty and fighting in the south-east between the army and separatist guerrillas, and these are under the close surveillance of the security forces. In March last year, the Gaziosmanpaşa a district of Istanbul, with a heavy population of Kurds and minority Alawite Moslems, exploded in two days of rioting that left 16 dead.

As the slums expand, they are destroying the city's already precarious infrastructure. Illegal power connections are overloading the already inadequate electricity distribution system, leading to power cuts. *Gecekondus* usually lack sewage systems, contaminating rivers and the water table. Slums are encroaching on six of Istanbul's main reservoirs.

Not everyone living in the slums is poor. Indeed, a few slum-dwellers are millionaires, at least on paper. In *gecekondus* across Turkey, families *have squatted on public land* for so long, or won title to the land from vote-hungry politicians at election time, that they can sell out to developers. Usually the apartment buildings are little more than high-rise *gecekondus* themselves, badly built with low quality materials and as overcrowded as ever. Frequently, the developers are merely well-armed gangsters, sometimes linked to local politicians.

Clearly, stopping migration, improving the quality of life in the *gecekondus* and building up cities' infrastructure are the basic policy challenges in Turkey's cities. Apart from local mayors' own efforts in house-building and infrastructure – funded in part by Ankara and foreign suppliers – there is little debate over these fundamental questions.

With the exception of the $32bn Southeast Anatolia Project, an irrigation, hydroelectrc and regional development programme, there is no effective regional development policy to keep people out of the big cities.

Neither is there much action to improve health and education services in the slums. In 1990 nearly one in five workers were illiterate, or lacked formal education. Demographers say that access to education, particularly for women, would reduce social stratification, raise incomes and prevent the slums deteriorating into a breeding ground for violent discontent.

PROFILE . The Bosporus

Danger in the straits

The narrow, winding Bosporus straits that cut through Istanbul are an essential feature of the city's character. However, increasing traffic on the straits are also a threat to Istanbul. Supertankers, already frequent users of the Bosporus, *could increase dramatically in* number as big central Asian oilfields start production.

Supertankers the size of apartment buildings, loaded with crude oil travelling through straits which are just 672m wide at their narrowest point, are obviously dangerous. However, the government's decision two years ago to tighten controls on traffic to improve safety has revived centuries-old tensions between Turkey and the users of the straits.

Ministers have also said they will not accept a big increase in tanker traffic. Mr Hüsnü Doğan, energy minister, says: "30m tonnes of oil a year presently passes through *the Bosporus. This amount* can be increased by a few million tonnes. A greater increase is impossible."

Last year Mrs Tansu Çiller, then prime minister, even told western governments she would invite Greenpeace and other environmental movements to organise protests against increased oil exports through the Bosporus.

Under the 1936 Montreux Convention Turkey may supervise traffic on the Bosporus, an international waterway, but in peacetime must allow merchant shipping "complete freedom of transit and navigation with any kind of cargo, without any formalities". The foreign ministry *may push for a change to this* when the treaty comes up for a 10-year review next month.

Turkey imposed its new controls in July 1994 after two Greek Cypriot-registered bulk carriers exploded in Istanbul, killing 29 crew members. The new rules set lower speed limits and require ships carrying dangerous cargoes to transit the straits one by one.

Officials say the rules have reduced accidents, but fear this success could be threatened if traffic continues to rise. Users, led by Turkey's rivals Greece and Russia, which ships about half its oil exports through the Bosporus, say Ankara is exaggerating. They complain that *radar, navigational aids and* radio links are insufficient. They say Turkey is trying to further its international campaign to build a $2.3bn pipeline linking central Asian oilfield with its Mediterranean terminal of Ceyhan.

■ Infrastructure

For want of maintenance

The resumption of daily power cuts appears to be another sign of national malaise

Power cuts are once again becoming part of daily life in Turkey. In the 1970s, power failures would last for hours and black out large parts of the big cities. Nowadays, the cuts – which happen frequently in Istanbul and Ankara – rarely last more than an hour.

But the fact that they have started again illustrates the collapse of the country's infrastructure. Earlier this year Mr Mesut Yilmaz, the prime minister, said that environmental objections to reopening obsolete, highly-polluting power stations would have to take second place to Turkey's growing demands for energy. Otherwise, he said, "we will have to introduce power cuts from the end of the year".

Though Mr Yilmaz later backpedalled on this idea, it is obvious that drastic measures are needed. For years, ministers have said that Turkey needs to invest $2bn a year to meet electricity demand that is rising by about 9 per cent a year, but have failed to act.

Instead, they have continued to impose political appointees on state utilities and interfere in investment and procurement decisions to favour their supporters. Neglect, under-investment and corruption are wrecking Turkey's roads, ports, railways, airports, power, water and sewage systems.

Governments have been able to evade their responsibility to invest in infrastructure because physical capital deteriorates slowly and consumers have become accustomed to declining services. But Turkey is now reaching the stage where immediate action is needed simply to maintain a minimum of reliable services.

Energy ministry officials dismiss as hysteria Mr Yilmaz's warning of impending power failures, but not because they think the situation is under control. They say the government is ignoring the far more basic issue of maintenance. Waste, theft and loss of output due to insufficient maintenance mean that Turkey's electricity generators operate at four-fifths of their installed capacity of 86bn kWh. In fact, peak demand is still about 10 per cent below capacity.

Theft and losses in the transport and distribution systems are so widespread that in some places, such as Diyarbakir, the regional capital of the south-east, those hooked up to illegal power connections are estimated to outnumber bill-paying consumers by two to one.

Revenues are also much lower than they could be if the system was operating normally. So electricity prices in Turkey are high, in spite of its abundance of hydroelectric power, placing an additional burden on industry which pays more for its electricity than most of its competitors in western Europe or North America.

Electricity generation in Gigawatt hours

Year	GWh
1991	60,246
1992	67,342
1993	73,808
1994	78,322
1995	84,521*

* = Estimate. Source: TEAS

The same problem affects almost all of Turkey's infrastructure: Turkey needs to spend much more on the unglamorous business of rehabilitation and repair of its existing assets. Relatively modest outlays could rapidly increase electricity generation by 10 per cent – equivalent to the output of the giant Atatürk dam on the Euphrates. Unfortunately, international soft loans provided for big ticket projects are rarely available for maintenance work, which has to be paid out of dwindling government budgets.

Even so, in highly centralised Turkey, all but the most mundane decisions have to be approved by Ankara's bureaucracy. But civil servants are afraid of taking decisions, fearing that an incoming government, in trying to make political capital, will accuse bureaucrats who served the former government of corruption or incompetence.

Mr Anders Ericsson, ABB's Turkey country manager, says officials "do not dare to take a decision for fear of prosecution. The best decision is no decision and every serious investor in Turkey takes this into account, so in the end the taxpayer loses." According to the State Planning Office, public infrastructure projects are on average 2.4 times over budget due to delays. Energy projects planned to be completed within 68 months are finished in 12½ years.

Mr Yilmaz and his predecessors have attempted to privatise utilities or introduce private financing for infrastructure projects though Build-Operate-Transfer.

So far, courts have approved only seven BOT projects, including the 672mW Birecik hydroelectric dam on the Euphrates. However, none of the seven projects are likely to come on stream in time to prevent black-outs.

■ Tourism: by Yekta Pinar

Getting around in Istanbul

Taxi fares are reasonable and, as an alternative, the pavements have recently been tiled

"Global" is Istanbul's favourite word at the moment as it prepares to host the World Habitat II Summit. A forest road 20 years ago is now its bank-lined Wall Street; a new neighbourhood near the airport, responsible for exporting US$2bn worth of textiles a year, is its mini Hong Kong. But Istanbul has also decided that it is time to be global in the way it has fun.

It seems only yesterday that international cuisine in Turkey meant slicing a few mushrooms on top of a piece of chicken. New there is a new generation of executives whose palates know far more than shish kebab. Italian is this month's flavour, closely followed by Chinese. There are still places you can eat fish and Turkish meze, but in the neighbourhoods of Etiler or Levent or the summer venues of Kurucesme, there are any number of supper clubs and bars whose design owes a little (if not enough) to Philippe Starck.

It's all a bit confusing for the visitor. In the old days, you could rely on everything being a little familiar. Now how does one negotiate Turkish night life and, more puzzling still, why don't waiters leave a blank space for the customer to add a gratuity on the bottom of the credit card slip? (Answer: Turkey, not a tax-loving nation, expects tips in cash)

Travellers know by now that hotels are not the best places to change money. The Turkish high street, however, offers an alternative to the bank. These are what are called "exchange buffets" or little shop fronts where tourists can join the queues of residents who buy and sell Turkish lira. These kiosks usually give a slightly better rate than the larger banks.

The lira tends to be firmer during the summer when there is ample foreign exchange. There should be no great fear, therefore of being stuck with excess Turkish lira, it is easy enough to buy back another foreign currency. Neither bank nor buffet charge an extra commission for cash. In fact, if you want dollars from sterling, it's probably cheaper to do it in Istanbul via Turkish lira than on a London high street. Much more confusing is keeping track of your change. There was a merciful week when a million Turkish lira was exactly equal to £10, but inflation soon took care of that.

This makes it all the more bewildering to know how much to tip. The humbler the restaurant, the less the waiters expect. Those who insist on obsequious service at their favourite restaurant will sometimes add 10 per cent to a similar amount on the bill, but a total of 15 per cent is usual. Denominations of TL50,000 or TL100,000 are useful for coat checks and bell boys.

Taxi-drivers, by the way, do not demand a gratuity. But since the fares are so reasonable compared to any other European city,it is mean-spirited not to round up to the nearest TL10,000 or even TL50,000. A few bad eggs deliberately ignore what is on the metre or claim not to have change. If your Turkish is less than perfect, and the driver wants more than you think he is entitled to, just walk away. There is nothing a dishonest driver can do.

Although there appears no legal requirement to pay for luggage, it is customary to offer TL100,000 for a large bag. One thing to remember in Istanbul is that the passenger is responsible for the TL100,000 toll over the bridges across the Bosporus, even if crossing in the opposite direction of the side where the toll is collected (Europe to Asia on one bridge and Asia to Europe on the other).

Travellers' cheques tend to be a bit of a dead weight, although it is not that risky to carry cash. Istanbul is safer than most metropolitan cities. Anywhere that caters to a business clientele will accept credit cards (as do the numerous automated teller machines). Still, it pays to watch for the occasional bag snatcher or gang of children who will stage a fight as you walk past as a ruse to get at your wallet. These tend to congregate around Taksim Square and Beyoglu area.

Until recently, the main risk of roving around Istanbul used to be not from petty thieves but sudden gaps in the pavement. But this may change. Residents of Istanbul were shaking their heads in amazement as the UN Habitat Summit prepares to kick off. Every bit of pavement in the city centre has been torn up, to be replaced with mile after mile of symmetrically-laid brick.

The last time something similar happened was after the 1980 coup when, it was popularly assumed, somebody's brother-in-law got the contract to cover the pavements with pink tiles. These were so positioned as to absorb a reservoir of water underneath. Days after a rainstorm you would step on one and be squirted in the eye. This time, however, it looks as if the paving might just work. Pedestrians can negotiate the Istanbul section of the global village in safety once again.

■ Izmir and the Aegean region

City of hustle and bustle

A reactivated city – Turkey's third largest – needs to improve the quality of its citizens' lives

Izmir's trade fair: the city is no longer a backwater

Only a few years ago, Izmir was a sleepy backwater, its past as the Ottoman empire's greatest trading post well behind it. Today, however, Izmir is bustling with activity. Factories and industrial parks appear in the least expected places, heavy trucks thunder along its narrow roads spewing black diesel fumes and rural migrants arrive, looking for work. As a result, the city's population has swelled to 3m.

Development and industrialisation destroy as they create. There is little left of the gracious, old world Smyrna, as the city was known before its name was changed to the modern Turkish Izmir. The wealthy families of Greek, Italian, Jewish, or Armenian descent that once dominated Izmir's commercial life have nearly all left. In the hinterland and along the beautiful Aegean coast, studded with magnificent Greek and Roman ruins, scarcely regulated development is studding the coast with high rise hotels and unsightly holiday villages.

Like city fathers the world over, Izmir's conservative mayor, Mr Burhan Ozfatura, 53, is attempting to meet the demands of a rapidly rising population at the same time as improving the quality of life in the city.

Some of his projects are popular. The Bay of Izmir, once among the loveliest in the Mediterranean, has become a stinking pool of raw sewage and industrial waste. The city is spending $345m to process effluents and pump them further out to sea. Two-thirds of the project has already been completed. "God willing, by 1998 the problem will be over," Mr Ozfatura says.

He wants to finish a ring road next year and inaugurate a $650m metro system in 1998. Housing is a critical issue in a city overwhelmed by heavy migration, so he plans to build homes for 12,000 families by 1999, the year he leaves office.

But his plan to drive industry from the city so as to reduce air pollution is less popular with employers and workers. His proposal to transform the Kordon, once a bayside promenade and now a main road, into an expressway is greeted with horror by Izmir's small environmental movement.

For all Izmir's hustle and bustle, it retains something of its old character. The pace of life is more sedate than in Turkey's other big cities. Izmir is proud of its burgher values of hard work, thrift and honesty, yet it still has an atmosphere of relaxed informality.

Everybody seems to know everybody. Businesses tend to co-operate and work together. For example, 99 small textile companies formed EGS, a business co-operative to buy raw materials with bigger volume discounts. The co-op has grown into an export services company, processing documents and channeling government soft loans to members.

As the city prospers, businessmen are thinking about what their next step should be. Cotton, then textiles, formed the regional economy's backbone. Now, says Mr Şükrü Unlütürk, founder of the small Sunteks garment company, "producing in Izmir is no longer competitive. Turkey can gain greater competitiveness if we do business [in the impoverished south-east]. We know this will happen, it is a question of making it happen quickly or slowly."

Wages in Izmir may still be far lower than in Europe, but they are rising. Companies think the future lies in services, design or finance or in high-tech related businesses. Demand for university-trained designers, software engineers and managers is growing strongly.

Slowly, businesses are locating to the region, fleeing from congested, polluted Istanbul. Obviously Izmir cannot pretend to rival Istanbul as Turkey's corporate capital, but some companies have found that they can run their affairs just as well from central Izmir as they can from central Istanbul. Among them are some of Turkey's most successful companies, such as the conglomerate Yaşar Holding.

If Izmir sees itself as a service centre for the region, then it makes sense to project itself as a financial centre, too. The notion of Izmir as a banking and capital markets hub has been growing for years but has taken on greater impetus in the past 18 months. Local business, supported by the mayor, are lobbying the bureaucrats of Ankara to allow them to establish a regional stock market and cotton market.

The region's companies need capital to grow but tend to be too small, too little known and too far from Istanbul to be able to approach the national market for funds. Mr Atil Akkan, chairman of the Izmir Chamber of Industry, which is backing both ventures, says: "A regional stock exchange aims to provide finance for them to grow and in future move their listing to Istanbul. We don't want to be a second Istanbul."

The campaign to open these markets has become a local cause, so sceptics tend to keep their views to themselves. One of them says: "It is very difficult to create two or three financial centres in the same country. We should accept Istanbul as the financial centre for Turkey and the Middle East."

Yaşar Holding may be headquartered in Izmir, but it decided to transfer management of its Tütünbank to Istanbul. A Tütünbank executive says: "We were criticised for the move, but it is very difficult to manage a large-sized bank from Izmir."

Mr Ozfatura's vision of Izmir in the future would be a relentlessly modern Mediterranean Singapore, driven by clean, high tech, high wage industries. His critics wonder in amazement as they look at the reality of Izmir today.

It is good to dream, they say, but why ignore the past? Why not build on the region's beauty and ancient monuments to create another Barcelona where modernity and development coexist, even accentuating the city's urban landscape and its traditional values?

COMPANY PROFILE Raks

Name behind the brand

The chances are that you have used Raks video and audio tapes, perhaps even a CD, without ever realising it. Raks may not be an internationally recognised name, but its products are sold under the labels of such brands as JVC, Kodak or Aiwa.

Raks is an unusual company for Turkey. It is heavily export-oriented, has successfully adopted the latest international management and production methods, and has no qualms in selling equity to outsiders, even foreigners.

The company was founded 18 years ago in Izmir and has become one of the country's most successful, with net sales last year of $106.9m and profits of $18.1m. Sales have increased by half in five years and profit has trebled.

Raks owes much of its success from working as a subcontractor to supply products for global brand name companies. Mr Bayram Tuncer, deputy general manager, says: "It is not economical for large companies to make their own products any more." Raks sells two-thirds of its tapes to such companies. Margins may be lower than on own label sales, but at least no sales or marketing expenses are needed.

Mr Tuncer says: "Without us, they would need a Pacific Rim company, but would face transport costs and time plus EU taxes. In one week I can supply a European customer, but from the Pacific it would take 40 days." Under Turkey's customs union agreement with the EU, Turkish products are exempt from import duties – in this case a saving of 4.9 per cent. Transport costs from Turkey to the EU are about 15 per cent lower than from the Pacific.

Raks is also unusual in Turkey for its progressive attitude to finance. Most Turkish companies focus on the domestic market, sheltered from import competition. They are usually owned and managed by their founders or their families and resist selling equity, preferring to finance expansion from retained profits or bank borrowings.

But Raks operates in a relatively capital-intensive industry. It had to rely increasingly on equity capital after financial problems almost overwhelmed the company in 1994, when Turkey fell into a short but sharp recession. Raks went public in 1993, selling 15 per cent of its shares on the Istanbul Stock Exchange. In 1994 it sold another 22 per cent in an international private placement. Last year it completed the first stage in an ADR issue. Mr Tuncer says he will use the proceeds to retire $20m-worth of debt, which consumed one-third of sales revenues at the end of 1994.

Looking to the future, Mr Bayram says the company has three basic objectives.

The first is to increase sales of higher-margin Raks-brand products, particularly in eastern Europe and the former Soviet Union. These two regions took nearly half of the company's exports of just under $100m in 1995. Margins are better and selling costs lower than in western Europe, and growth prospects far greater than in the mature EU market.

A second aim is to accelerate sales growth to 25-30 per cent a year while keeping net margins in their current 13-15 per cent range. Raks looks well-placed to achieve this: it completed expansion investments last year with a 50 per cent increase in capacity, and is now well capitalised.

Finally, Raks wants to venture into the music and retail business in Turkey, where it controls about 60 per cent of the CD, video and audio tape market. Turkey has a large, young and fast-growing population, so domestic sales growth, at least, seems assured.

A guide to Turkey

Bring the plug

Population

61.2m (1994 mid-year estimate).

Istanbul	6.62m
Ankara (capital)	2.56m
Izmir	2.32m
Adana	0.97m
Bursa	0.84m
Gaziantep	0.6m
Konya	0.54m.

Figures based on 1990 census, when 65 per cent of the population was urban.

Visas

Required by nationals of Ireland, Italy, Spain and the UK (not generally needed by other EU nationals). Visas are available at port of entry for £5. They are valid for three months, but do not allow the visitor to take up employment.

Business hours

Banks: 8.30-noon and 1.30-5pm (Monday to Friday);
Government offices: 8.30am-12.30pm and 1.30-5.30pm (Monday to Friday);
Business offices: 9am-12.30pm and 1.30-6pm (Monday to Friday);
Shops: 9am-1pm and 2-7pm (Monday to Saturday).

Food shops may keep longer hours and there is likely to be one food shop open in each neighbourhood on a Sunday.

Public holidays

Banks and offices are closed on January 1; April 23 (National Sovereignty and Children's Day), May 19 (Youth and Sports Day), August 30 (Victory Day), October 28 (half-day), October 29 (Republic Day).

There are other public and religious holidays, but on these banks and offices open.

Health

Avoid drinking the tap water. It's best to bring anti-diarrhoea tablets (locally-produced varieties are available).

You should consider malaria-preventative tablets if visiting the south-east in late spring or early summer.

Hepatitis A, polio and typhoid vaccination are recommended. Rabies is a potential danger: keep away from the giant Sivas-Kangal sheepdogs, which are not aggressive unless one gets too close to their flocks.

During the summer, when mussels are best avoided, food poisoning is a risk, especially in eastern Turkey.

Climate

Coastal regions have a Mediterranean climate, with mild, moist winters and hot, dry summers. November, December and January are the rainiest months, June, July and August the driest months. July (27°C in Izmir) and August are the hottest months, January (8 °C in Izmir) and February the coldest months.

What to bring

The following could be useful: mosquito repellent (especially May-September), sunblock cream (expensive in Turkey) and a sink plug.

Sources

Statesman's Yearbook 1995-96; Europe – The Middle East & North Africa 1996; EIU Country Profile: Turkey 1995-96; Chambers World Gazetteer; ABC World Airways Guide; FT World Hotel Directory 1996; Rough Guide to Turkey; Lonely Planet Guide.

COMPANY PROFILE Opel Türkiye

'Family' keeps together

Most people in Izmir know the way to the Opel factory. Located about 40 minutes from the city centre, the six-year-old factory is the region's premier foreign investment project and a source of great local pride.

Opel Türkiye, owned by the Germany-based subsidiary of General Motors, spent $42m setting up the factory in 1990, and now builds about 10,000 Vectra J cars a year, taking 4 per cent of Turkey's domestic market. However, perhaps the more striking thing about Opel is its innovative approach, by Turkish standards, to manufacturing and employee relations.

Mr Kevin Jackson, Opel's managing director, says: "The people have been highly trained and the process they went through to get a job here was very intensive. The level of motivation is something to be proud of. The concept of family is extremely important in Turkey. We treat our people like they are members of a family and if you do that they will go through walls for you."

Although this is now a well-established international management tenet, positive employee relations are rare in Turkey, where powerful patriarchal bosses dominate their companies.

But at Opel, where quality and savings are pursued with obsessive zeal, the workers willingly participate in permanent cost-cutting – and job-threatening – exercises. Even though there are no unions, Opel has an unwritten policy of not laying off workers. Mr Jackson says that to "keep a motivated workforce, you can't lay people off and rehire them at the bottom of the wage market. When you take the decision to keep the family together they are constantly trying to improve quality."

Three hundred people work at Opel, nearly all of them factory workers. In 1994, when a financial crisis drove the economy heavily into recession, Opel had to cut production. Instead of laying off staff, it found jobs for workers either in Turkey, or overseas. Fifty Izmir employees went to train workers at new GM plants in Egypt and Indonesia.

Employees are encouraged to submit labour- and money-saving ideas and those whose ideas are put into practice are rewarded generously. Some workers devised an ingenious way constantly to oil part of the assembly line, saving three hours of maintenance time a week. Mr Jackson says: "They think like managers."

Mutual dedication and loyalty seem to work. The Izmir plant is among the highest scorers in quality surveys, invariably outdoing larger and more sophisticated operations in Europe.

Other companies in the region are trying to adopt similar methods to motivate employees. One nearby factory has divided its workers into teams, competing with each other to reduce defects. Signs hanging above the factory floor urge employees to wear pullovers instead of complaining about the cold or proclaiming that "every defect is a loss for the nation" but at this factory, perhaps unsurprisingly, workers seem sullen and resentful.

There are several additional factors that explain Opel's success in industrial management. To begin with, it pays well above the local average wage so it attracts better qualified workers – a few even have university degrees – and high unemployment makes employees value their jobs.

Perhaps most important, since Opel's factory is relatively new, bad working and management habits have not yet put down deep roots. In comparison, managers at an Opel competitor established in Turkey for 30 years, where relations between management and workers are ossified, are paradoxically trying to force employees to accept empowerment.